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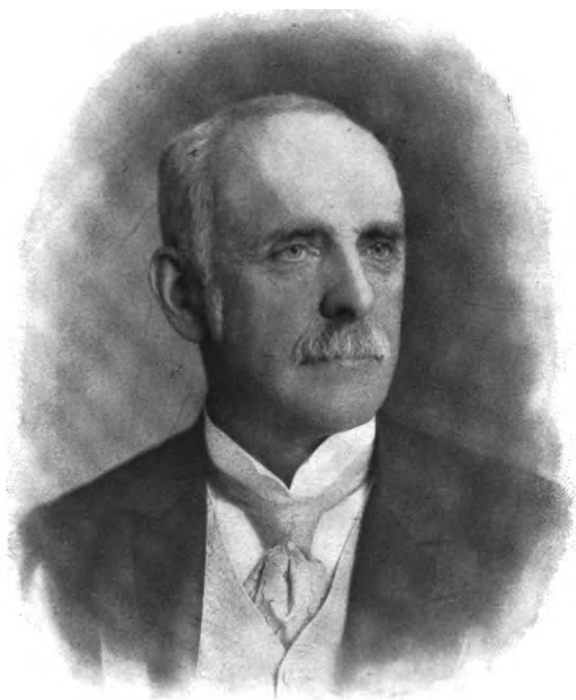
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Leslie M. Shaw

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BY

THE HON. LESLIE MORTIER SHAW

SECRETARY OF THE TREASURY, 1902-1907



D. APPLETON AND COMPANY
NEW YORK
1908

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Published February, 1908

U. S. GOVERNMENT

PRINTING OFFICE

PREFACE

I HAVE no apology to make or excuse to offer for presenting this volume of discussion. While I am alone responsible for its contents, the idea of collating it originated with others. Major William H. Fleming, my private secretary while Governor, was the first to suggest such a volume, and Harold Bolce, who was in the Treasury Department while I was Secretary, took up the thought and began the work. Others have carried it on. Much of the detail of preparation was performed during the period of intense financial stress, when it was impossible for me to give the subject even a passing thought.

Being composed of letters and excerpts from speeches covering quite a wide range of subjects and a somewhat extended period of time, naturally repetitions will be found, and the same thought will be several times expressed. But a thought that is worth expressing at all is worthy of more than one setting. The want of sequence between topics will also be apparent.

I do not ask or expect that very many will agree with me on all subjects. I have never made a speech or written a letter having for its aim or end the winning of approval. If what I have said as here recorded shall incite logical thinking, the

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purpose for which the utterances were originally made will be conserved.

This age is not friendly to statecraft. As a people, we are too busy to meditate. Our institutions, however, were established in great thoughtfulness, and their preservation must depend upon the considerate and logical judgment of a well-informed and intensely sincere people.

L. M. S.

NEW YORK CITY,
December 26, 1907.

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PART I

THE NATION AND THE STATE

I

BEGINNINGS OF THE REPUBLIC

THIS nation, with its present confines, the relation of States, our domestic and foreign policies, was never conceived and wrought out according to a plan.

Our matchless heritage is the result of evolution, and not a product of political architecture. A brief review of the manner in which we have thus far builded may be of assistance in shaping our future policies.

At the time of the colonization of America no one anticipated a great and independent republic, and no plans were made with that end in view.

The colonies held under thirteen distinct grants covering 10,000 miles of coast. Each colony enacted laws wholly independent of the others. Their profession of faith and their religious observances were as divergent as Christianity admits.

The Colonies.

Two only were republics in form, three were monarchies with proprietary governorships, and eight were viceroyalties. Prejudices and petty jealousies without number existed between them, and disputes concerning boundaries were constantly arising. Modes of travel were the most primitive, and inter-

colonial commerce was well-nigh a thing unknown. In a few respects only were they all alike. They all possessed advanced ideas of freedom, they were jealous of their rights, and they were fearless in the defense of their liberties.

King George III is on the throne of England, and Lord North is Prime Minister. The one is arrogant, self-assertive; the other arbitrary, vindictive, and ambitious. A great political upheaval is taking place in the mother country. Party strife between the Whigs and Tories reaches a point bordering on civil war. Fortunately for England, and fortunately for us, the scene of military conflict is on this side of the Atlantic. Fearful of trouble, a delegated convention is called, which assumes the name Continental Congress. It meets under no provision of law, and is clothed with no authority.

I have witnessed deer and wolves running peacefully together, neither in fear of the other, but both mindful of a rapidly approaching prairie fire. Common fear akin to this led to this first step toward union.

This Continental Congress at first resolved upon nothing further than common resistance to what was universally considered unjust exactions. The battle of Lexington was fought on April 19, 1775, and Bunker Hill in June of the same year. These engagements were purely defensive, and constituted armed resistance to the enforcement of regularly enacted legislation. There is no evidence that the colonists believed that the steps then being taken would

result in a permanent union, or even in the establishment of independence. They simply revolted against what they believed to be unfair, unrighteous, and oppressive, and sought through a resort to arms to obtain satisfactory concessions.

Meantime the entire Whig Party of England was in hearty sympathy with the revolting colonists, and they made no attempts to conceal their sentiment. The American cause was frequently referred to by the Whigs as the "Cause of Liberty," and the success of the British General Howe was referred to in the House of Commons as the "terrible news from Long Island." Washington's forces were frequently mentioned as "Our Armies."

As the conflict progressed it became apparent that reconciliation was impossible. Franklin expressed the dominant thought when he said: "We must either hang together, or we will hang separate." Independence.

It was fifteen months, however, from the first battle of the Revolution to the Declaration of Independence. This was the second step toward union.

It seems strange that the colonies should unite upon a policy of resistance, maintain a congress, promulgate a declaration of independence, raise an army, provide for its subsistence, appoint a commander in chief, negotiate loans, issue currency, and all without a constitution or any other instrument defining in any degree the relation between the several States or the powers of this congress. Such, however, is what was actually done.

Subsequently Articles of Confederation were adopted. These articles were in terms, and in fact, simply an agreement of friendship between sovereign States. A central treasury was established, but there existed no authority for levying and collecting taxes, and the colonies voluntarily contributed very little.

Lord Cornwallis surrendered in October, 1781, but it was eighteen months before a treaty was signed. The Whigs had become the dominant party in the mother country, and in conceding independence to thirteen colonies holding under grants embracing a strip of country along the coast and the gulf, eventually gave them everything east of the Mississippi River. Our friends were in control.

Meantime the several States were levying and collecting tariff duties against each other, and in some instances acts were passed prohibiting the sale of certain articles in neighboring States. Not only the political, but the commercial, condition of the country was most deplorable.

Finally, after six years of doubt and uncertainty bordering on despair, a Constitution was adopted. This great document is not an agreement of friendship between several States. But it reads:

“ We, the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquillity, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do

ordain and establish this Constitution for the United States of America."

I am disposed to believe that the commercial instinct was a very potent incentive to the consummation of the union of States. There were, however, some serious questions which the Constitution did not specifically solve. Finding themselves unable to agree whether the union of States should be perpetual or subject to dissolution at pleasure, the whole subject was left to be subsequently determined:

Immediately there arose two distinct schools of political thought. The one taught the doctrine of State sovereignty, while the central thought of the other found expression in the immortal words of Webster: "Liberty and union, now and forever, one and inseparable."

Unsettled
Questions—
Their Solution.

After seventy years of discussion and discord, eleven States sought to withdraw from what they believed to be a compact in the nature of a copartnership, rather than a solemn marriage. The conflict which followed need not be reviewed. Suffice it to say there were engaged in that war a million men on either side. Eleven engagements per week were fought for four years.

When Lord Cornwallis surrendered at Yorktown, Washington's army numbered one for every fifteen adult males within the colonies. When Lee surrendered at Appomattox, Grant's army numbered one for every five adult males in the Northern States,

and Lee's army a somewhat larger proportion of the population of the South.

Measured by the number of men engaged, measured by the number of battles fought, measured by its cost in blood and treasure, measured by what was involved to the participants and by what was involved to the world at large, measured by anything and measured by everything, duration alone excepted, the war for the preservation of the Union stands without a parallel.

The colonies were first assembled under the Continental Congress. They were brought in touch with each other under the Articles of Confederation; they were united under the Constitution, and they were welded in the white heat of civil conflict.

—AT NEW HAVEN, CT., BEFORE THE YALE POLITICAL CLUB, DECEMBER, 1905.

II

TENDENCY TOWARD CENTRALIZATION

INSTANCES are numerous where Congress has made laws for the accomplishment of ends for which the several States might have appropriately made provision.

Congress made its first appropriation in aid of internal, interstate improvement in 1806. This was for the construction of a highway from the Potomac River to Ohio. Subsequently, an appropriation was made in aid of the Delaware Canal. Prior to the Civil War the present minority party made liberal appropriations in aid of railway construction, and during the Civil War, and subsequent thereto, the present majority party pursued the same policy. Many millions have been spent in dredging harbors and rivers for the encouragement of both domestic and foreign commerce. Thus, even before the Civil War, the trend was toward centralization, and from then till now Congress has been lavish in expenditures within the several States for the performance of tasks which the States might perform. Even the present minority party, though vigorously denouncing the policy of

centralization, furnished supporters for every pending measure looking thereto.

The law recently enacted, giving the National Government supervision of quarantines, received in both Houses of Congress support of every avowed opponent of centralization. Several of the Gulf States sold or leased to the Government, and others discontinued, their quarantine stations, thus voluntarily surrendering to the Government a prerogative which the State might appropriately exercise. The Pure Food Bill, giving to the National Government the right to enter the several States and examine into the sanitary condition of packing houses and other manufactories of food products, also had the support of avowed opponents of centralization. The creation of a Commissioner of Corporations in the Department of Commerce and Labor, with jurisdiction to investigate all controversies between the employer and the employed, received the hearty support of most, if not all, of those most outspoken against the principles involved.

Not only have they supported every measure thus far passed, but several of the most prominent adherents of the party, which makes opposition to centralization a paramount issue, openly advocate going to the limit of centralization, and propose that the National Government construct and maintain highways through all the States; and some even advocate government ownership of railroads.

I say this not in advocacy of this recognized trend

toward centralization, but in proof that such a trend does in fact exist, and to emphasize the paradox that the strenuous opponents thereof in principle are in practice its most ardent supporters.

Where all this will end is more than any one can predict; but unless a halt is soon called State legislation will be completely shorn of important jurisdiction.

—TEXARKANA, ARK., SEPTEMBER, 1906.

PART II

INDIVIDUALISM

III

COLLECTIVISM VS. INDIVIDUALISM

IF a case bearing the above title were to be tried upon an agreed statement of facts, it would probably be admitted that the burdens and hardships of life are not equally nor equitably divided; that some live in luxury, exempt from toil, and able to indulge their every wish and whim; while others live in abject poverty, are hunger-driven to incessant labor, and are able to enjoy none of the luxuries and very few of the comforts of life. It would also be admitted that neither property, worldly pleasures, individual happiness, nor anything else that we call good, or anything that we call evil, is distributed under our present civilization equally or according to man's labors, or according to man's needs, or according to man's capacity to bear or to enjoy.

From these admitted facts it would be predicated by counsel for collectivism that we must radically change our form of government, or at least our system of political economy, to the end that we may not only be born equally, but that we may also live on planes of social and financial as well as political equality. Without stopping to define the recognized distinction between anarchism,

What
Remedy?

nihilism, socialism, and communism, I shall proceed to defend individualism against the entire array.

Collectivism in some phase is not a new discovery. It is probably as old as the race. It has pervaded, to some extent at least, all countries and all peoples. Just now it is enjoying a revival, and it has in its employ not a few revivalists—some devoted to the cause and some working for hire.

Either property rights are consistent with Christian civilization, or they are not. There is no middle ground. If a man can segregate a garden patch and exercise exclusive jurisdiction thereof, may he not exercise proprietary rights over a larger tract and hold it against all comers? If a man may own a cow and use the product for the sustenance of his children, who shall forbid him two cows or a thousand cows, or deny him the right to use the product in supplying luxuries for his children?

I once heard two men denounced by name from the pulpit because they had combined their business and had discharged one set of employees. Their calumniator referred to them as "two hogs" who had discovered that they could make more money jointly than separately, and their denunciation was followed by what appeared to be the deliberate suggestion that unless such things were stopped we would have a revolution.

A few years ago a professor of "Applied Christianity" was introduced by the pastor of a church, to a congregation in which I sat, as "a Man with a Mission." In the course of his harangue against

our civilization and our interpretation of the Christian religion, he compared the former claim of "the divine right of kings" with the present "A Man with claim of the divine right of property. ^{a Mission.}" He referred to what he called "the lower classes," and said we had no business to have lower classes. "Why have slums?" he shouted. "As a man gets more wealth he should move down instead of up." He denounced the system that compels the many to toil for the few as tyranny, and asked his hearers to set their faces against our civilization. "For," said he, "we cannot accept our civilization and Christianity." He followed this with the suggestion that a revolution is sometimes the only method of righting great wrongs. His animadversions received frequent applause from that Sunday evening congregation, composed of high-minded, noble-hearted, cultured people. The audience room, the largest in the city, was packed to overflowing, and it would have been difficult to select a more representative congregation. Not long thereafter I visited the town where this "Professor of Applied Christianity" resided. He had not moved down, but continued to occupy a beautiful residence, which he acquired by gift, situated in the most aristocratic and cultured part of the city.

I have selected this subject because of the tendency on the part of many public speakers to invite popular applause through the indulgence of wholesale criticism of the existing order of things, and the willingness with which many

Criticism

Cheap.

good people listen to frequent and ill-considered attacks upon any phase of our civilization. There is nothing cheaper than criticism. This is due, perhaps, in part to the fact that the supply seems to be exhaustless. It requires no great degree of mental acumen to formulate indiscriminate complaint.

Still I would register no objection if I did not fear the legitimate and inevitable fruit of this broadcast sowing of dragon teeth. Hearing these denunciations from high sources, from popular public speakers, reading them in widely circulated publications, the half fed and poorly clothed are in danger of concluding that everything is radically wrong, and that the only way to right the wrongs is along lines the suggestion of which should cause every thinking man to shudder. I can but believe such utterances, whether from the pulpit, from the professor's chair, from the stump, or from the Chautauqua platform, more harmful and fraught with more of evil than those of the wildest fanatics. Preceding the Haymarket riot, of Chicago, some one made the statement, widely quoted at the time, that dynamite could be made from the carcasses of dead capitalists as well as from dead hogs. Such a statement is shocking, and our recoil from the suggestion is logical and necessarily helpful. The suggestion that a system which compels the many to toil for the few should be corrected by revolution is seductive, to say the least, though harmful in the extreme. It is true that the great majority of the race are compelled to toil; it is likewise true that the aggregate accumulations of

sixty centuries is controlled by a small minority of the fifteen hundred millions of the race.

It is not true, however, that human happiness is measured by freedom from care or that productive labor is a synonym for misery. God intended man should work. We read that the Almighty once looked over his work, pronounced it "very good," and rested. I am convinced that the chiefest joy which comes to us in this busy, whirling turmoil of life springs from the divinely implanted capacity to appreciate a self-appointed task accomplished. Man seldom measures up more closely to his Divine Father than when he realizes that he has done some work and done it well.

"In the Sweat
of Thy Face
Shalt Thou Eat
Bread," a
Blessing.

I have seen some of the extremes of life. I have eaten my supper of mush and milk with a pot-metal spoon, and I have also eaten terrapin with a gold spoon, fourteen carats fine. True, there was this distinction, the one was from the original equipment of the household under conditions as I first knew them, the other at the table of a friend. Neither, however, measured in the remotest degree the happiness of the two households.

I cannot count the care-free people whom I have known among the happiest of my acquaintances. The extremes of poverty or of wealth are not conducive to the best in life or to the greatest measure of enjoyment. A multimillionaire associate in the Cabinet remarked to his friend one day on the golf course,

Extremes of
Life Not Con-
ducive to
Happiness.

"The happiest time of my life was when I used to get up in the morning and hold the baby while my wife got breakfast."

The mother who in comfortable circumstances takes active part in the care of the family occupies the position on which in my judgment God bestows the greatest measure of human happiness which it is the lot of women to enjoy. And the man who goes daily to a task that yields him sufficient to supply the necessaries of life and just enough of the comforts so that comforts are appreciated, and who in the practice of self-denial and economy accumulates something for old age, is blessed beyond those occupying positions of extreme wealth.

"If every man's internal care were written on his brow,
How many would our pity share that move our envy now."

They err who assume that the rich are more dependent upon the poor for their labor than are the poor upon the rich for their employment. No factory could be operated without artisans, and few artisans would find employment if there were not factories.

My observation leads me to believe that in the caste distinctions which we are rapidly borrowing from Europe may be found the underlying cause of what appears to be an ever-widening breach between the employer and the employed. I do not believe, however, that the fault in this respect lies more with the employer than with the

Caste Dis-
tinctions.

employed. The assumed, confessed inferiority, sometimes well-nigh insisted upon by the one, is quite as prominent as the assumed superiority of the other. I confess a pining for the old-time democratic conditions of my childhood, when the educated daughters of New England taught school or worked in factories without losing caste, social position, or matrimonial opportunity.

There must be no caste in America. The surest preventive of caste is hope, and the father who is a dispenser of hope in his household renders better service to the State than the mere dispenser of bread. Patriotism, education, and work have made this country what it is. Their happy blending in the lives of our children will preserve the best of our present civilization, and insure that which is better still. Each should have the fostering care of the State and the hearty coöperation of the citizen. "Six days shalt thou labor" is as binding as the preceding injunction of the fourth commandment "Remember the Sabbath day to keep it holy."

It is frequently urged in support of collectivism that the early church held everything in common. Such an experiment is recorded, but it is also recorded that it did not work well; and similar experiments have never worked well since. I am glad of the record, and I have always believed that it was inserted in Holy Writ as a warning against its repetition. The Bible contains many historic accounts with no suggestion of Divine approval.

I am indebted to Doctor Nugent for the thought that when God sought to safeguard the race he found he was confronted with this difficulty. If he placed each individual in charge of a guardian there would be constant danger from unfaithfulness to the trust; therefore, he implanted selfishness, thus making each his own guardian, and felt comparatively safe that the post of duty would not be deserted. It would be difficult to conceive what would have become of the race ere this had not the desire for self-preservation been made the first law of life.

Over-developed selfishness is greed, and its manifestation is not infrequent. Absolute self-negation is so unusual that its every exhibition commands our admiration. Still, self-interest controls the race, and, within proper limits, has the stamp of divine approval. It is idle, therefore, to rail against it. It is the mainspring of human action without regard to race, color, or present or previous condition of servitude. No legislation can prevent it, and legislative attempts to prevent it are not infrequently prompted by self-interest. Collectivism would afford no cure, though it would rob the individual of the right to share to the fullest extent the natural and legitimate fruits of superior natural and acquired adaptability.

But why demand equality in material acquisition? We do not demand equality elsewhere. In the great war a million men entered each army. They enlisted with equal patriotism, they followed the flag with equal devotion, and with few

Self-Guard-
ianship.

Leadership.

exceptions they fought with equal daring. But at the end of four years, twenty-five more or less had become multimillionaires in military glory, while thousands slept in unmarked graves. They were equal in patriotism, equal in self-forgetful devotion to the cause they espoused, but they were not equal in adaptability for military achievement, nor were their opportunities equal for brilliant display.

Two hundred and sixty thousand enlisted in the Spanish War. One hundred days later two or three in the army, and not more than that in the navy, had become millionaires in military glory. Others had made a fortune in fame, but the great majority had barely a competency.

The history of jurisprudence can be read in the biographies of not to exceed ten jurists, and the history of medicine in the biographies of less than ten. Thousands have tried to write poetry; a few have succeeded, but they are all long since deceased. Perhaps a somewhat less number have attempted to compose music, and a less number have succeeded; but they, too, are dead. Art schools graduate thousands per annum, but few of them ever again see their names in print. Adaptability in a given line certainly is not covered by the phrase in the Declaration of Independence where it is declared that all men are "created equal." Since it is impossible to make man the equal in adaptability, the best the State can do is to safeguard the individual against discriminations; further than that the path is difficult to describe.

There has never been a time when so much was being done for the humble and lowly. There was never so much sympathy nor so many helping hands nor so much self-sacrifice in the interest of others since the world began as in the age in which we live. Within the memory of many now living imprisonment was a common punishment for the insolvent debtor. There were no exemptions from execution. The cow, the pig, the household furniture, and the home itself were sold without the suggestion of redemption. It would be interesting to study the evolution of legislation favorable to the unfortunate, and the beauty of it all is that with scarcely an exception every amelioration has been at the suggestion of either the wealthy or the well-to-do.

The race is not deteriorating. We are living at a rapid pace, and acquisitiveness is in the front rank of dominating motives, but this will not last forever. In the evolution of our civilization each succeeding change has presented a more agreeable tone. The next will be as great an improvement over what we now behold as this is over anything preceding. So long as the principle of individualism is kept basic, we need have no fear of the ultimate triumph of right over wrong. Altruism is the legitimate child of individualism.

—BEFORE A PREACHERS' ASSOCIATION, MT. MCGREGOR,
1899.

IV

EVOLUTION IN BUSINESS METHODS

IT may not be amiss to note a few changes in conditions. At the resumption of specie payment we had large areas of as good land as the sun ever shone upon, either subject to homestead entry or for sale at nominal prices. These are now exhausted. No one will again be able to purchase at less than \$5 per acre and in fifteen years see it advance to \$40. Complain as we will, these opportunities are gone. Past Opportunities.

The department store is fast superseding the ordinary retailer. True, it has brought the merchandise of earth within the reach of the consumer at the lowest possible cost. The factory has taken the place of the shop. Aggregated capital has supplanted the man of small means. Corporations are more than a match for the individual in very many departments. Nearly every industry is now prosecuted on gigantic proportions and amid such intense competition as to render the probability of success for the man of limited resources decidedly remote. Department Stores.

Business is also conducted on very small margins. The surplus eggs of Iowa, for example, are han-

dled and disposed of in the markets of the world at a profit of less than a cent per dozen. This is of infinite value both to the producer and to the consumer, but is an absolute bar to the egg merchant who proposes to handle less than a million dozen per annum. The manufacturer of domestics confronts a market controlled by an eighth of a cent per yard.

The producer of flour has been compelled to reconstruct his mill every five years, or retire from the field, and his output competes for the tenth of a cent.

A certain factory in the West sells over \$100,000 worth of cogwheels per annum in an adjoining State, and is able to do this because the factory does such an extensive business and has such extraordinary facilities that it can lay them down at the consumer's plant for the fraction of a cent per pound less than they can be made in smaller quantities.

The same principle pervades all lines of business. It is idle to complain. These conditions belong to our civilization and are here to stay. They are neither an unmixed good nor an unmixed evil. Great fortunes have been made and many fortunes lost.

To avoid the possibility of a fortune being made it is sometimes proposed that the Government shall take control of every industry which has proven profitable. Others are content to rail at the existing order of things, and we hear it sometimes from the pulpit, now and then from the platform, frequently from the stump, and very often from the street corner.

It is the part of wisdom to prepare the citizen to meet these conditions, unpromising though they be, for meet them he must. This generation has produced them; the next must Meeting the
Conditions confront them, and in some respects it is illy prepared. We have sympathized and pitied and wept over, and discouraged and enervated to an alarming extent.

We are more in need, just now, of men who can face facts than of those who can promulgate theories. There was never such a demand as at present for men who can do something better than others. Never were such rewards offered for real merit. Never was mere physical power comparatively so cheap nor high-grade practical intelligence better rewarded.

It is estimated that steam costs, per horse power, about \$100 per annum. He who can do only what a steam engine can must expect low wages, and no power of legislation will grant adequate relief. Changes in our civilization cannot be prohibited by law nor vetoed by executive authority. Substantial protection of our industries against the homeless and hopeless laborers of Europe alleviates. The suppression of child labor, enforced sanitation, and kindred efforts all tend to abate the hardships. The abolition of trusts and monopolies would relieve, but must not be expected to cure.

Encouraging laborers to oppose every measure desired by their employers never has proven helpful, and each effort to array class against class has been abortive of good.

How shall we prepare the citizen to meet existing conditions? Educate him—make a thinker of him. Protect him from heresies by teaching him logic; teach him mathematics, language, history, philosophy, mental and moral science. He may become a producer of something either rare or useful. The builder of an industry that employs ten men is as helpful to the State as the producer of the wheat that feeds them.

The Citizen
to be a
Thinker.

The producer of an improvement in the method of making butter renders better service than he who merely puts this method into operation; and he who in turn produces the better article, by thus making use of the product of the other's mind, adds more to human happiness than he who produces only rejected goods.

Begone forever the cant that he alone renders service who performs manual labor, or that the foundations of our Government rest upon muscle rather than upon mind. Muscle is cheap; the rivers are full of it, the winds laden with it, the very clouds surcharged with it, but mind is scarce everywhere and brings a high price in the American market.

It will require an article of a little higher grade, however, to meet the demands of the twentieth century than was merchantable in the nineteenth. The best product of the prairie is not corn, but men; and the quarter section that produces a thinking man, full fledged in all his powers, may well be held to have performed its mission.

Be far removed also the disposition to discourage! Every child should be expected to rise above his environment, whatever it may have been. Many will fail, but none should ever hear the suggestion from parent or teacher, from pulpit or stump, that he cannot rise.

Let there be
no Discour-
agement.

Labor, capital, and intelligence are jointly essential and ever interdependent. Neither can say to the other, "I have no need of thee." Each should have the fostering care of the State and the hearty coöperation of the citizen.

—INAUGURAL ADDRESS AS GOVERNOR, 1898.

V

NATURAL AND INCURABLE CONDITIONS

IN a friend's dining room I saw a cut-glass vase that must have cost fully \$100. I confess that it seemed extravagant to me, and I thought how much better it would have been had he spent his money in helping some struggling fellow up the **Helpful** hill. Then I remembered that cut glass **Extravagance.** is only white sand plus labor. So my friend had helped some fellow up the hill, by giving him employment, much more effectively than he would have done had he made him a present of the cost of the vase. Had he made a present of \$100, the recipient would have soon been back for more. As it was he gave him the opportunity to be a self-supporting producer, a creator, if you please. He gave him a touch of the satisfaction which the Almighty expressed when he pronounced Creation very good.

In this vase were one dozen American Beauty roses that cost \$2 each. Was that money wasted? A rose is little else than God's sunshine plus labor. Who is harmed by the cut-glass and cut-flower industry, unless it be those who buy when their income is insufficient to justify the expenditure? I repeat that neither the naked fact of wealth nor the extravagant

consumption of luxuries by the possessors thereof is necessarily harmful. Both the demand for labor and the volume of the world's earnings are materially increased thereby.

Years ago a newspaper reporter, seeking an interview from Robert Ingersoll, asked this question: "What is the great need of the world?" Mr. Ingersoll replied: "That the wealthy shall be more extravagant and the poor more economical."

If the mere possession of wealth is not vicious, is the combination or exaggeration of wealth necessarily harmful?

There are people residing in the central West to-day who, in making their first journey, bought a ticket at New York for Albany; there they hired passage by carriage and trans-
Transportation Then and Now.
 ported their goods by dray through the city; purchased another ticket for Buffalo, there to repeat the process; repeated it again at Cleveland; again at Toledo; and ended their journey by rail at Chicago. Lest there should be combinations between the roads and a transfer of cars from one track to another, rather than a transfer of freight from one car to another, the roads were built of different gauge. It was some years before a uniform width permitting the transfer of loaded cars was fully adopted.

As late as 1877 the tariff on a bushel of wheat from Missouri River points to Liverpool was sixty-one and one half cents. At that time it went into warehouse at Chicago, was reshipped, went again into warehouse at New York and perhaps interven-

ing points. It was handled several times and paid several commissions. It now costs less than twenty cents to take wheat from the Missouri River to Liverpool. Meanwhile the warehousemen at Chicago and other points, and the commission merchants, have been put out of business, and the laborer who operated the elevators and made the transfers and re-shipments has sought, and fortunately he has been able to find, other employment.

Please do not understand me as suggesting that these rates ought not to be less. My present purpose is merely to suggest the combination of capital to a limited extent is not always an unmixed evil.

I well remember the Granger movement of the seventies. It was then contended that one store could handle all the goods necessary to supply a town of ordinary size; that one factory was large enough to make all harvest machinery; and that every additional store or factory constituted a burden upon the consumer, for in the end it was the consumer who paid the expenses of the extra traveling men, rent, overhead charges, etc. It was contended that this one store should buy directly from the manufacturer so as to eliminate the jobber.

Time has wrought the desired change. The department store, with its many objectionable features, is with us. It handles all classes of goods, buys direct from the manufacturer, and frequently consumes the entire output of the factory.

I cite these facts for no other purpose than to

suggest that the conditions existing in the seventies were not wholly bad, although there were few to commend them at that time, and that conditions at present are neither wholly good nor wholly bad.

I do not believe it was in the province of legislation in the seventies to compel middlemen and storekeepers, jobbers, and traveling salesmen to retire, and I question the efficiency of any statutory conditions at present seeking to compel them to resume. Much as we dislike it, "The old order changeth, giving place to new. And God fulfills himself in many ways."

Incidentally let me suggest that the trend of our times is very strongly toward paternalism, and the danger is emphasized by the fact that the adherents of the political party whose platform invariably "views with alarm the tendency" are far in the lead in voting its application.

Trend toward
Paternalism.

If this proposition be doubted, compare the legislation of the States dominated by the opposing parties. The evil of which we complain, and have a right to complain, centers around the word "trust," which is a misnomer for monopoly. Many methods have been suggested for abolishing and preventing trusts and combinations, some of them, however, in my judgment, open doors quite as dangerous as those through which have come these admitted evils.

The evil, as I discern it, is found in monopolies. I think those who contended at the trust convention of Chicago last fall that "trust" and "monopoly" should be treated as synonymous terms were correct. I have yet to find

Monopolies.

the first man who has a word to say in extenuation or defense of monopolies. We hear much of the pernicious effects of monopolies. When the robins and jays are devouring my cherries I do not care to listen to my children's graphic amplification of the havoc they are producing. "Go and drive them off!"

It is no fault of our laws or of our humanity, or of our civilization, that some are physically stronger than others; that some have better memory than others, or are better cooks, better financiers, than others. The more favorable the condition the greater will be the separations.

"Peter Pan" would make scarcely better time in deep mud than the veriest dray horse; but improve the track and his special speed endowments will become apparent, and the better the track the more apparent.

Let us discover, if we can, the actual evil, for it certainly exists. Existing, we ought to be able to find it. Is the mere possession of wealth objected to, or do we object only to the improper use thereof?

It cost \$50,000 to develop a certain gold mine, during the progress of which scarcely a penny was realized, and no one knew when, if ever, it would pay. Was anyone harmed by the expenditure? The outlay was wholly by those who had the money, and the enterprise was voluntary. The money was expended for labor, and the wages when earned were spent for the necessities of life. Thereby men and women were supported, children clothed and fed, and

those who produced the grain and the vegetables, the meat and the cotton, the wool and the manufactured fabrics, were afforded a market and were given employment. The loss rested solely upon those who believed that later on they would realize something from their investment, and their hopes were not in vain.

The next few years witnessed a yield from that mine of many millions. To whom did this wealth belong? To those who had assumed no risk or to those whose courage, enterprise, and hope had led to the development of a wealth-producing plant? Who was damaged or made poorer by the enterprise? At whose hearth was the fire extinguished by reason of this outlay? Whose children suffered through the night, and who were compelled to sit at empty tables? Evidently no one.

I say that wealth itself is not harmful *per se*, and the evil which we all recognize, and would each gladly remedy, lies not at its door.

In a certain city the believers in a particular school of politics gave a great dinner on the anniversary of the birth and in memory of a great statesman. They turned several hundred plates at \$10 each. They seem to have had the money with which to do this, and it is presumed it was accumulated or inherited in such a manner that their title had never been disputed. Who suffered by this expenditure? Among those benefited was the poor fellow who caught terrapin on the Maryland coast, or oysters in the bay; the producer of butter from the prairie; the

caterer and his waiters; the florist and the decorator. Ten dollars per plate was scattered that night among the toilers of this country. No one was harmed and many helped. The wealth there represented injured no one that night.

The governor of a great State said in a speech to which I listened that he would forbid the sale of monopoly-produced goods in his State. His audience cheered to the echo. If the remedy is wise and feasible, I hope it will be quite generally adopted. I doubt, however, both its wisdom and its feasibility. The sale of intoxicating liquors can be prohibited in the several States, but the right to prohibit rests upon the fact that the use thereof is harmful, and the courts uphold the law as the legitimate exercise of the police authority of the State. I do not believe, however, that a law forbidding the sale of sugar, nails, wire, lumber, or any other necessary of life would be upheld. The distinguished governor must have intended only to prohibit a monopolistic corporation from selling its wares within his State.

Manifestly the law would be nugatory as against the concern that sold its wares to private citizens within the State of production. These purchasers could then sell anywhere within the United States without let or hindrance; for their right so to do is guaranteed under the Constitution.

Then, again, most of the merchandise produced by monopolistic concerns are necessities of life. Suppose our good governor should secure the passage of his proposed law and that it should be effective.

What would the people of the State do for these necessities of life? He would have prohibited the sale within his State of the product of a monopoly, and there would be no other source of supply. Was not the suggestion made for effect? And in making political suggestions for effect no one has a monopoly.

Publicity as a remedy has been many times proposed, and much can be said in its favor. I am not prepared to consider the remedy however as a complete cure. No statutory provision is likely to make mandatory a more complete and detailed report than the one regularly issued by the United States Steel Corporation. Without expressing an opinion whether this concern is a monopoly or not, I think it is manifest to everyone that the readiness with which it makes its affairs known, the promptness with which it answers every inquiry concerning its business, and its willingness to have its books examined, in no manner affect the relative proportion of the aggregate iron and steel output which it produces.

Publicity.

One of the greatest difficulties in preventing monopolistic producing concerns lies in the fact that capital seeks the most convenient atmosphere. Most of the States invite industrial enterprise. Capital possesses the power of locomotion, and it seldom builds factories in States where the laws impose objectionable conditions. If all the States of the Union could be induced to enact the same anti-trust legislation great good might re-

Capital
Locomotive.

sult. The fact that this cannot be done so long as some States legislate against capital in the most drastic manner, while others court its presence, flatter it, and foster it, has led many to urge the exercise of jurisdiction over all producing and transportation concerns by Congress.

The marvelous development of our natural resources which has taken place within a generation would have been impossible under conditions prevailing when Burns stopped his plow to express his sympathy for an upturned daisy and his pity for a homeless mouse. That was an age of sentiment, but it left no record of commercial or industrial achievement. This is an age of business activity, and future generations will read in its history little of sentiment. Both conditions have their advantages and both their disadvantages. Complain as we will, regret it as we may, we are now living in the twentieth and not in the eighteenth century.

Business, in all the comprehensiveness of that term, is the question which engages the attention of the American whatever his condition or lot in life. Let the nation, therefore, and let each State see to it that the game is fairly played; that every man is given a square deal; that the common carrier is restricted in its operations to hauling passengers and freight for hire; that it observe uniformity in rates; that both the giver of special favors and the recipient thereof be promptly punished; but meantime let not the people be misled into believing that every evil incident to our times can be cured by

Business—A
Square Deal.

legislation. Selfishness will present itself in every walk of life and every branch of business so long as man dwells upon the earth. Only the unthinking will be carried away by high-sounding promises couched in indefinite and unmeaning terms and generalities.

—SECOND INAUGURAL ADDRESS, 1900.

VI

COMMERCE AND TRADE

ORIGINALLY each community was self-dependent. The necessities of life were all produced within very narrow limits. Trade was synonymous with barter. Gradually, for the convenience of commerce, media of exchange were agreed upon. Whenever precious metals were used they were weighed with each transaction. Gradually, for the convenience of commerce, governments volunteered to weigh and certify, and coined money was the result.

The Evolution
of Commerce.

Originally merchandise was conveyed from place to place on backs of slaves and beasts of burden; gradually, for the convenience of commerce, paths were transformed into highways, then governments constructed highways and provided that they should be public and open to the use of all alike. Gradually, for the convenience of commerce, transportation companies became common carriers with certain rights, privileges, and corresponding burdens. The recognized responsibilities of the common carrier have been imposed gradually, and always in the interest of commerce. The marvelous growth and development

of railways have taken place within the memory of men now living. Edward Entwistle, stoker for George Stephenson's first locomotive, the "Rocket," on its trial trip from Manchester to Liverpool, sat on my platform in 1900, then eighty-five years of age. Gradually railway grades are being reduced, curves straightened, until a single locomotive will haul from ocean to ocean, not one hundred tons as formerly, but more than a thousand tons. The same evolution has been going on and is still going on on the seas, and all for the benefit of commerce.

While these changed and ever changing conditions have served commerce, they have also served international peace and contributed in greatest measure to the dissemination of knowledge and to the sum total of human happiness.

Commerce
as an Agent
of Peace.

Once personal prowess, physical courage, and readiness to fight against fancied wrong and imagined insults were the accepted units of measure in man's estimate of man. Nations partook of the same spirit, and the ambition of rulers made the earth a charnel house. Had God revealed the secrets of science to the ancients as bountifully, as unreservedly as He has to us, the race would have extinguished itself. Dynamite would have proven a dangerous toy in the hands of the infant race. But the spirit of intelligence and the prudence of commerce are turning these powerful agents of offensive and defensive warfare, not to the destruction of people and the obliteration of the races, but to the preservation of the

race and to the spread of international comity and good will.

Wars involving the expenditure of well-nigh limitless blood and treasure have not been always difficult to inaugurate. Statesmen have not always trembled as they have made appropriations for the maintenance of wars. But commerce always trembles; it counts the cost. Commerce is ambitious, but it is never ambitious to squander the accumulations of centuries in rebuking the injury of a day. And so, Gentlemen of the Chamber of Commerce of the Empire State, and distinguished guests from foreign Chambers, I felicitate you and the nations you represent, yes, and the race, that the day has come when nations shall no longer war without cause. The day has come when great navies are not looked upon as threatening the peace of the world, and when armaments and fortifications have lost much of their terror.

Probably the day is far distant when the great commercial countries here represented will cease to be competitors in business. Certainly not until each shall conclude that uniformity of commercial legislation will be to its advantage will each cease to legislate especially for its own people. But legislating for one's own is quite different from legislating against another. The one is the result of divinely implanted principles of self-preservation, while the other is of the opposite spirit, and the germ from which it springs is claimed to have had quite a different origin.

The Com-
petition of
the Future.


Admittedly, it requires much grace to fervently pray for the prosperity of one's competitor, but when a competitor's prosperity makes him a greater consumer, and therefore a better customer, the profit thus certain to ensue ought to be an encouragement to grace.

Permit an illustration: The people of the United States were admittedly never so prosperous as now, and their consumptive capacity has kept pace with their ability to supply not only their needs but also their wants, and so it is that the United States is now a larger consumer of foreign production than ever before in history.

It is universally recognized that the good fortune of any one class of citizens redounds to the advantage of all, and it is equally true, though perhaps not universally recognized, that the prosperity of the people of any one great commercial country directly benefits each and all of its competitors.

If this principle is ever universally recognized, then commerce must be the schoolmaster and Chambers of Commerce the instructors.

I am convinced that commerce may be conserved and all countries benefited by uniformities of means, methods, and utilities. Within the last few days I have listened to distinguished Commercial
Tendencies. representatives of foreign Chambers speaking in a language other than their mother tongue. These gentlemen learned the English language because it is the natural language of commerce. I do not know that the miracle of Babel will ever be reversed, but if it ever should the convenience of commerce and



not the fear of floods will be the occasion. I do not know that the world will ever adopt uniform standards of weights and measures, but I am convinced that such a course would greatly aid the cause of international commerce. If this ever shall be accomplished, the metric system, for which we must acknowledge indebtedness to a nation represented here to-night, will of necessity afford the solution. Manifestly, the value of all merchandise is to be measured in gold. This is already done internationally, and governments that provide any standard other than gold for local use impose upon every international transaction a tax sufficient to bar their people from competition therein. If the world shall ever, for the convenience of commerce, adopt universal denominations of money, I am satisfied the unit will be divided into tenths and hundredths, and I shall not be surprised if denominations shall be known as dollars, dimes, cents, and mills. It may be a dream never to be realized; it may be a hope born of a wish, but I have often thought that some time the commercial world will speak a common language, weigh and measure its merchandise in common standards, and count its money in universally accepted denominations.

The commercial struggle in the years that shall follow in which our children and our children's children shall take part must not be for commercial supremacy. A sentiment more worthy would be in recognition of debtorship to the world.

The Ultimate
Nature of
Commerce.

A stranger paid the street-car fare of a gentleman who chanced to be destitute of the necessary means. When thanked for his courtesy, he replied: "Pass it on; you will find some time another similarly situated." St. Paul said: "I am debtor both to the Greek and to the barbarian." He had received much from the Greek and owed much to the barbarian. We are debtors both to the past and to the future; both to nations who have preceded us, whose languages we speak, whose history we read, the record of whose achievements we cherish, whose civilization we have inherited, and we are debtors quite as much to such countries as have not enjoyed the advantages that have come to us unearned, except by our ancestors. Thus, in recognition of blessings incident to a civilization planted by previous generations, encouraged, nurtured, and advanced by commerce, let the swiftest wings of trade carry the ripened seeds of modern ideas to all lands, under all skies, to the blessing and the advancement of all peoples.

—BEFORE THE CHAMBER OF COMMERCE, NEW YORK CITY.

PART III
THE TARIFF QUESTION

VII

DISAGREEMENT OF PARTIES

WHAT is involved in the tariff question? I do not think I can make it clearer than to repeat substantially what I have said on many other occasions. A political campaign should be educational, and a campaign speaker should be a teacher rather than a political haranguer. As a teacher I feel no embarrassment in repeating myself in some degree to the several classes that honor me with their presence.

Every industrious citizen is a producer. He may produce nothing but day's work and sell his labor in the labor market. He may produce corn or cotton or factory products and sell these in appropriate ways. He may be engaged in conveying merchandise from one point to another, and whether he be an ordinary drayman or a railway operative he is a producer. He may sell commodities, and whether he does this at wholesale or retail he is a producer. He may make exchanges at the bank, and thus become a producer. Anyone who in any way adds to the sum total of American production, or to the grand aggregate of American commerce, is a producer.

All Industrious
Citizens
Producers.

We are all consumers, whether industrious or otherwise. We consume food and clothes and cover.

Dual Interests. Therefore we have dual interests. We would like to buy that which we consume as cheap as possible, and sell that which we produce as high as possible. Having dual interests, we may be appealed to from dual sides. Our Democratic opponents appeal to us from the consumer's side, and say to us that we will be happy and prosperous if we can buy the things we consume sufficiently cheap. They assure us that it is unimportant who produces that which we consume provided the price is low enough. They advocate opening wide the doors of trade so that whoever can produce the thing we eat, or the thing we wear, or the things that unite to form the roof that covers us, the cheapest, shall supply our necessities.

The Question of Pay. The Republican Party approaches us from the producer's side, and says to us that we will be contented and prosperous if we can get satisfactory returns for that which we produce, whether it be a day's labor or the resultant of a day's labor. We Republicans say it is relatively unimportant what price we pay, provided we buy of ourselves, so that the proceeds shall remain with us and be in turn used to buy other commodities which we also produce. We insist that the foreign competitor shall pay a portion of the proceeds of competing wares which he may sell in this country into the public treasury, thereby contributing to the maintenance of the Government, and thereby as well giv-

ing the American producer an advantage in the American market. They say, Place us in power and we will invite hither the products of every clime to the end that you may buy the cheapest things of earth. We say, Put us in power and we will discriminate against competitive products of other countries to the end that America shall largely supply the needs of Americans and receive therefor American returns. They say, Place us in power and you shall pluck the ripest fruits of the toil of other men's hands without let or hindrance, and you shall be fed from the fields and clothed from the looms of other countries. We say, Put us in power and you shall be fed from the products of American fields and clothed with the product of the American loom, and the utensils of your trade and the furniture of your home shall bear the imprint of well-paid American labor. They say, Place us in power and we will give you the best market in the world in which to buy. We say, Put us in power and we will give you the best market in the world in which to sell. You cannot have both.

I am aware that in some districts opposition orators frequently promise that a tariff for revenue only will result in high-priced wheat for the farmer and cheap bread for the artisan; high-priced cattle for the herdsman and cheap meat for the mechanic. They always remind me of a man who in olden times sought a position as school teacher and was asked whether he taught that the world was flat or round. He replied that he could teach it either way just to please his constituents.

Oratorical In-
consistencies.

Permit me to divert long enough to show you that a tariff for revenue only and free trade are synonymous terms. England is a free-trade country, and yet England collects more tariff duties per capita than does the United States. This statement may seem paradoxical and therefore must be explained. England levies her tariff duties for revenue only. She places a high tariff on tea and coffee, not for the purpose of encouraging the growth of tea and coffee within the realm, but for revenue and for revenue only. During the Spanish War the United States placed a duty on tea, not to encourage the growth of tea in this country, but for revenue only. When the war was over the tariff on tea was removed. We still levy, and doubtless always will collect, some duties solely for revenue.

Most of our tariff schedules, however, are designed to protect the American producer, artisan, farmer, and manufacturer. We have a tariff, for instance, of forty-five per cent on pianos and organs, not for the purpose of raising revenue, but for the purpose of protection. As a result, the pianos and organs used in this country are made in this country. The last census covering this industry shows \$14,000,000 per annum paid to 25,000 operatives in this one industry. The provision yields no revenue to speak of, for there was only \$1,277,435 worth of musical instruments imported during the last fiscal year. If the duty on these articles were adjusted

Tariff for
Revenue and
Free Trade
Synonymous.

Our Tariff
Schedules
Mainly
Protective.

in harmony with the free-trade principle of England or the tariff-for-revenue-only principle advocated by the Democratic Party, which, I repeat, are identical, the rate of duty would need be placed sufficiently low to secure their importation. Otherwise, no revenue would result. Such a course would throw these 25,000 operatives now employed in piano and organ factories into the streets, where they went in 1893, and the American producer of food products and of textiles would be deprived of the market afforded by them, as they were deprived during the existence of the Democratic Wilson-Gorman bill.

England places quite a heavy duty on beer. I do not recall the amount, but it is not for the purpose of protecting the English beer makers. It is for revenue only, and lest it should afford protection there is imposed and collected on domestic beer an internal revenue tax exactly equaling the tariff duty on foreign beer. This results in sending domestic and foreign beer to the consumer taxed exactly the same, and carries out the free-trade principle of the country by giving the domestic producers no advantage.

You frequently hear people declare their belief in a tariff for revenue only with incidental protection. But a tariff for revenue only is not Tariff for Revenue Only, a tariff for protection in any degree. The What Is It? Dingley tariff law affords protection and yields revenue also, and thus fulfills its designed purpose. It was not intended, however, to be a tariff for revenue only, nor a tariff for protection only, but a tariff for protection and for revenue. I wish you

young gentlemen would remember that a tariff for revenue only is a tariff for revenue *only*. The reason why it is called a tariff for revenue only is because it is a tariff *only* for revenue.

The Republican Party seeks in every way consistent with the principle of individualism, as distinguished from collectivism or paternalism, to encourage and foster industry. *New Industries.* The prosperity of this country rests in the industrious character of our people. Eighty million idlers would mean eighty million beggars. Eighty millions of people, with every man employed who is willing to work, means exactly what we now experience—the greatest prosperity ever witnessed on the earth. I cannot explain to the young men how this encouragement of industry and fostering of industries is applied, and how in the face of Democratic opposition the Republican Party causes factories to be built and millions of men set to work better than by means of a few actual illustrations.

When William McKinley was making his tariff law in 1890, he sought diligently to discover what new industries could be created. Looking over the list of importations, he discovered that we were buying our pearl buttons abroad and sending much money abroad therefor. On inquiry he found that raw material in the form of clam shells was plentiful in several of our rivers. He therefore put a provision in the law to the effect that whoever brings a dollar's worth of pearl buttons to this country shall deposit twenty-five cents in the public treasury. To

be more formal and more exact, the law imposed a nominal specific duty and twenty-five per cent *ad valorem* duty on pearl buttons. What was the result? Certain men purchased machines. This gave a little employment to the iron miner and the coal miner, and some to the machinist. Then men were employed to gather the shells, to operate the machines, others to sell the buttons, until at Muscatine, a little town in my State with a population of less than 15,000 inhabitants, there is annually paid out in the pearl-button industry practically three-fourths of a million dollars. And other towns on the same river and on other rivers are similarly benefited. What becomes of this money? It is spent by those who receive it, and largely for food and clothes. Those who have furnished the food and clothes spend it again for labor, while those who receive it again spend it, and on and on it goes, and to that extent contributes to the general prosperity of the country.

We grow no silk in this country. If we levied a tariff for revenue only we would undoubtedly have a tariff on raw silk. But since our tariffs are designed primarily for the purpose of giving employment to labor, we admit raw silk free of duty, and put a high rate of duty on silk goods. The duty on manufactured silk varies from thirty per cent *ad valorem* on silk twist to \$4.50 per pound on cloth weighing not over one-third of an ounce per square yard. Roughly speaking, whoever imports silk of foreign manufacture is required to put fifty per cent of the proceeds in the Treasury. This gives the American spinner

and weaver of silk pretty fair assurance of permanent employment.

What is the result? Great factories have been built, operatives by the thousand are employed, until last year we imported more than \$50,-
The Result. 000,000 worth of raw silk and paid more than \$25,000,000 to men and women employed in the industry. What became of those wages? They were spent for necessities or for luxuries, or were expended in the erection of homes or deposited in banks to be loaned out and by others used in lucrative and productive channels.

Those who furnished these eighty thousand silk operatives their necessary food and clothes again spent the proceeds largely for labor, and the laborers again spent it for necessities or expended it in permanent investments.

These illustrations could be multiplied indefinitely. Young men, it is not by accident that this
Our Prosperity country is prosperous to-day, nor was it
Not Accidental. by accident that it was unprosperous in the nineties. Never indulge the thought that effects proceed from anything else than causes, and never harbor the suggestion that causes will fail to produce results.

By giving the American producer an advantage at home over his foreign competitor we have builded the greatest market in the world. The nations of earth sell the one to the other approximately ten billions per annum, while we sell among ourselves the one to the other approximately twenty-five

billions per annum, or two and one-half times as much as the aggregate international commerce of the world. Does anyone suppose we could do this if the theory advocated by our opponents were put in operation and the products of foreign countries invited without payment of duty? Such a course would again close our shops and factories and again turn millions of operatives into the streets.

Young men, the Democratic Party is wrong. Those who believe in it may be good men. Many of them are learned men, and a fair average of them are sincere men. Sincerity, however, is not a preventive of financial disaster. Sincerity has not always prevented accidental shootings nor accidental poisonings. A policy is correct or incorrect not because of the integrity of purpose of those who advocate it, but because of eternal verities which are beyond the power of man to change.

—ST. LOUIS, 1904.

VIII

WHO PAYS THE DUTIES ?

I DO not know how much I contribute toward the support of the Government, but I know of some who contribute vastly more than I.

A short time ago a party returning from Europe, by some lapse of memory or otherwise, omitted to enter a diamond necklace. Treasury officials in Europe had telegraphed his purchase, and when his attention was called to it he promptly entered it and paid \$28,000 duty.

I went down one morning a while ago and met an incoming steamer at quarantine. Unexpectedly, I met a friend of some wealth. I noticed him making entry of the things he had purchased abroad, and a few days later, more from curiosity than anything else, I examined the records, and found he had paid \$5,400 on the contents of his trunks.

I was down at Tiffany's the other day, and asked to see their most expensive dinner-plates. They showed me some worth \$3,000 per dozen. They were the best they happened to have in stock at the time. The duty on these plates was over \$1,000 per dozen. I did not buy, but some one did.

A lady of wealth returning from Europe a couple of years ago brought with her \$76,000 worth of articles of personal and household adornment, and paid nearly \$32,000 duty on them. Among the articles was a lace berth on which she paid over \$5,000 duty. She came again a few months ago, and paid over \$11,000 more. I hope she will go again next year.

I was the guest the other day on a private car of a friend. He tendered me a cigar. I do not smoke, but as the Treasury Department collects the duty on foreign cigars I recognized the name and remarked that it was a very fine cigar. He replied, "Yes, I import them." He then told me that he paid into the Treasury as duty on his cigars about \$100 per month.

AMOUNTS OF DUTIES COLLECTED ON LUXURIES

We collected last year in round numbers ¹:

On foreign-made laces and ribbons, \$19,000,000.

On jewelry and precious stones, \$2,700,000.

On foreign-dressed furs, \$1,600,000.

On foreign-made glass and glassware—that is, fancy glass found mainly in the homes of the rich—\$3,300,000.

On foreign liquors, like French Champagnes, etc., consumed only by the rich, \$12,000,000.

On foreign tobacco and cigars, \$22,700,000.

¹The corresponding items for the fiscal year 1907 yielded \$65,500,000. The aggregate here is \$61,300,000. The duties on "articles of voluntary use and luxury" yielded last year (1907) \$85,000,000; and internal revenue taxes, \$270,000,000.

On what the Treasury Department classifies as articles of voluntary use and luxuries, \$75,000,000.

Then, in addition, we collected on carpets, cloths, dress goods, flannels, cotton, flax and hemp manufactures, used almost exclusively by the well to do, \$25,000,000.

The same is true of other items. We collected \$500,000 duty on perfumery.

Now, what do we do with this money? We spend it in many ways. We spent \$37,000,000 during

How is the Money Expended?	ing the last four years in the erection of public buildings in 465 cities and towns in forty-five States. ¹ Who got the money?
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Those who quarried the marble and the granite, those who cut the stone, those who transported them, those who laid them in place, those who mined the iron and the coal to smelt the iron, those who rolled the structural steel, those who made the nails and those who drove them, those who felled the trees and those who sawed the lumber, those who planed it and those who fashioned it and those who put it in place, all got their portion.

The \$37,000,000 that went for public buildings went to labor, and labor spent it for food. The farmer got it who furnished the food, and spent it for underwear to keep his children warm, and the factory that made the underwear paid out forty per cent of it for cotton and for wool and sixty per cent for labor, and the laborer again sent it to the farmer for food, so that the farmer got it twice.

¹ This amount is for the four years 1903-07.

We spend some millions for river and harbor improvements, most of which is wisely used, but it all goes for labor. Rivers and harbors are dredged and improved under the supervision of the War Department, and officers in the army get the same pay whether they are improving rivers and harbors or doing something else. These laborers again spend it for food and clothes, and on and on it goes. We spend millions for battle ships and cruisers, but out of every million thus expended \$900,000 goes to labor in some form. We spend \$150,000,000 for pensions.¹ This is expended for the necessities of life, and the producer gets it. The Government gets its revenues—as we have seen—from those who can afford to pay, and it pays them to those who can afford to receive. It will be a sorry day if it ever ceases to collect in appropriate amounts from the wealthy and well to do, and to return the same in these convenient ways to the channels of trade and usefulness, and to the blessing of every industry in which our people are engaged.

We spent last year \$1.04 per capita on the navy, but we have something to show for it. The other day they set up a target 21 feet long and 17 feet wide. There it stands. Over here a mile distant is a battle ship; it is moving ten knots an hour, rocking slightly over

River and
Harbor Im-
provements.

Cost of
the Navy.

¹ For fiscal year ending June 30, 1907, there was expended for pensions \$139,000,000.

the waves and rolling slightly from the recoil of the gun. Three motions. They reach down into the hold of that vessel, take a cartridge weighing three-quarters of a ton, swing it up forty feet, put it into the gun, fire it; reach down and get another cartridge, swing it up and fire it, and out of ten shots they put nine thirteen-inch holes through that target one mile away, from a moving vessel, in five minutes by the watch. It used to take five minutes for each shot. And then they put ten smaller holes through the same target in two minutes by the watch. It is worth \$1.04 to tell that. There is not a battle ship made by the hand of man that can live five minutes within a mile of that kind of marksmanship. I am willing that the world shall know that we are spending some money on a navy and have a navy to show for the money spent. So long as the world knows that we have such a navy, we will never have use for any navy.

—AT PORTSMOUTH, OHIO, 1905.

IX

IS THE TARIFF A TAX?

IN September, 1906, a newspaper in Arkansas having published an article to some extent criticising a speech just then made in that State by Mr. Shaw, the latter wrote the editor the following letter:

MY DEAR SIR: I have just read with interest your editorial, "Shaw and Protection," which has been forwarded to me. The advocates of protection, like the advocates of free trade, are sometimes led by their enthusiasm and sometimes by their want of knowledge to extreme positions. The fact that the foreigner sometimes pays the duty leads timid protectionists to allege that they always pay the duty, and the fact that the consumer sometimes pays it leads the enthusiastic and ill-advised free trader to allege that he always does. Undoubtedly, the wearer of diamonds pays the duty, and the tariff on diamonds is a tax. Unquestionably the duty on the cheaper grades of manufactured cotton goods does not advance the cost, and instances are innumerable where the common and cheaper grades of manu-

Duty on
Diamonds.

factured articles sell regularly below the specific duty thereon.

You quote my reference to the man who paid \$100 a month into the Treasury on imported cigars.

Duty on Cigars. Unquestionably, the price of Cuban cigars is advanced by the duty, but our domestic cigars are not advanced by reason of the duty on cigars. The "Old Virginia Cheroots" would not sell more than "three for five" if there were no tariff on cigars. On the contrary, my friend's \$1.25 cigar would be much cheaper without the duty.

You refer to my mention of forty-five per cent duty on musical instruments. This is prohibitive on

Duty on Musical Instruments. all instruments except special makes and those for the use of specialists or the fanciful. If the Democratic tariff for revenue only were placed on pianos, you will agree that it would have to be sufficiently low to insure importations in great quantities, or it would yield very little revenue. Our leading piano companies could be induced to build factories on the other side if the duty were ten per cent instead of forty-five, but the men now employed in piano factories would be looking for employment, and their families would be looking for bread, as in the nineties.

You say that the American manufacturer of pianos would still have "the advantage over his foreign competitor to the amount of the ocean carriage, marine insurance, and a dozen other incidental expenses of marketing his goods in this country." This advantage is not so great as might at first ap-

pear. The "Encyclopædia Britannica" contains the statement that the English laborer can pay the transportation charges on a year's supply of food from the United States to England with a single day's work. Transportation charges are now nominal, and when taken in connection with the "German-English policy of dumping abroad cheaper than at home," universally practiced throughout Europe, it amounts to nothing.

It may be true, as you state in the editorial, that the piano manufacturers have made some money in the business. This may or may not be an unmixed evil. That is dependent upon one's viewpoint. Be that as it may, they have paid many millions of dollars to labor, which has passed from the laborer to the producer of food and clothes and been again paid to labor. Had our pianos been purchased from abroad, as they would be under a tariff for revenue only (or no revenue would be realized), two results would have followed; first, that great good so commonly urged by free traders, the manufacturer would have been prevented from getting rich; and, second, what to my mind is a great evil, the many thousands of their artisans would have been seeking other employment.

In this connection let me thank you for the very cordial treatment you accorded me in your editorial. The fact that we differ on economic questions gives no occasion for offense or misrepresentation. The only criticism I can possibly make of your editorial from the viewpoint of a free trader, is that you quote

me as conceding the universal claim of my political opponents, that the importer pays for everything he buys a price above that which would prevail under a tariff for revenue only in exact proportion to the tariff imposed thereon. I concede that the consumer pays the duty on some articles, but by no means on all.

X

BRIEF TARIFF HISTORY

OUR political opponents quote Thomas Jefferson as being in favor of "equal rights for all and special privileges for none." I have never been able to verify the epigram as an exact quotation from Mr. Jefferson's writings, but it is quite likely that he said it. Most men before his time, and most men since, have been willing to subscribe to the same confession of faith. Our opponents use it, however, as an expression from Jefferson against protection, for they insist that all tariff laws, except for revenue only, are in the nature of class legislation.

I deny the proposition. It is no more class legislation to encourage industry by protecting the products of industry from competition with similar merchandise purchased abroad than it is class legislation to encourage agriculture by maintaining a Department of Agriculture with experiment stations and free distribution of seeds. It does not come as near being class legislation as the far-reaching policy of reclaiming portions of the arid belt by constructing irrigation reservoirs and canals from the proceeds of public lands.

The American people, widely scattered though

they be, are so intimately connected in their business relations that no one locality and no one industry can prosper except when all thrive, and none can suffer except in periods of universal depression.

Not for the purpose of criticising our political opponents nor to call in question their intelligence, but for the purpose of teaching from experience as recorded in the history of this country, do I make the statement that the Democratic Party on no previous occasion ever surrendered control of national affairs with conditions generally so good and so favorable as when Grover Cleveland retired from office and William McKinley was inaugurated on March 4, 1897. Let me not be misunderstood. Times were good and conditions favorable during Mr. Cleveland's first administration, for the Senate remained Republican during his entire first term, and no tariff legislation was enacted; so that the party was not in complete control of the Government.

Andrew Jackson was first elected President in 1828, immediately following the enactment of a protective tariff law. This tariff law remained in force only five years, but you can judge of the beneficial effects thereof from a single paragraph contained in the message of President Jackson submitted in December, 1832. He says:

“Our country presents on all sides marks of prosperity and happiness unequaled perhaps in any portion of the world.”

The next year, however, the author of this indorsement signed a tariff act which provided for a biennial reduction of one tenth of all duties in excess of twenty per cent so as to ^{Tariff of 1833.} reduce the rate on articles to twenty per cent at the expiration of ten years.

Within six years from the passage of this law public revenues had fallen off twenty-five per cent; the Government was again borrowing money. Then it was that the country entered upon the worst panic period ever experienced in the memory of any man now living. This was the famous panic of 1837, which continued with increasing intensity until counteracted shortly after the passage of the protective tariff of 1842, following the victory of the Whig Party.

If any of you young people doubt the severity of that panic, go to your library and get Colton's "Life of Henry Clay." I quote from it as follows:

"In Ohio, with all her abundance, it was hard to get money to pay taxes. The sheriff of Muskingum County, as stated in the *Guernsey Times*, in the summer of 1842, sold at auction ten hogs at 6½ cents each; two horses at \$2 each; and two cows at \$1 each. In Pike County, Missouri, as stated by the *Hannibal Journal*, the sheriff sold three horses at \$1.50 each; one large ox at 12½ cents; five cows, two steers, and one calf, the lot at \$3.25; twenty sheep at 13½ cents each; and twenty-four hogs, the lot at 25 cents."

The protective tariff law passed by the Whig Party in 1842 remained in force four years, and I can furnish no better evidence of its beneficial effect than to quote from the message of President Polk submitted to Congress in 1845:

“Labor in all its branches is receiving ample reward, while education, science, and the arts are rapidly enlarging the means of social happiness. The progress of our country in her career of greatness, not only in the vast extension of her territorial limits and in the rapid increase of her population, but in resources and wealth and in the happy condition of our people, is without an example in the history of nations.”

This transition from the lowest ebb of financial disaster to a high plane of industrial prosperity brought about by the Whig tariff of 1842, as certified to by President Polk, bears striking resemblance to the result wrought by the Dingley tariff, which found 3,000,000 men out of employment, their families pinched with hunger and clothed in rags, and in four years set them all again at work, and made fitting and appropriate the sign which swings above an employment agency in Pittsburg—“All kinds of work for all kinds of people.”

It seems, however, that the people were even less able to bear continued prosperity then than now, for the Democratic Party was successful in 1844, electing

James K. Polk, of Tennessee, and George M. Dallas, of Pennsylvania. The platform was equivocal, and campaign speeches more so. In Pennsylvania and perhaps some other States ^{Tariff of 1846.} the cry was, "Polk, Dallas, and the tariff of '42." In other States where protection was supposed to be unpopular, it was "Polk, Dallas, and free trade." The Democratic Party secured at that election complete control, and immediately proceeded to materially lower the tariff by the enactment of what is known as the Walker Bill, which was passed in 1846. The Senate was about equally divided, and in that body the debate became most interesting. Daniel Webster spoke against the bill for three days, and that you may understand how that great statesman viewed the effect of a protective tariff upon labor, I quote from his speech:

"And, sir, take this great truth; place it on the title-page of every book of political economy intended for the use of the United States; Daniel .
put it in every farmer's almanac; let it be Webster.
the heading of the column of every mechanic's magazine; proclaim it everywhere, and make it a proverb, that *where there is work for the hands of men, there will be work for their teeth*. Where there is employment, there will be bread. . . . Employment feeds and clothes and instructs. Employment gives health, sobriety, and morals. Constant employment and well-paid labor produce, in a country like ours, general prosperity, content, and cheerfulness."

The Democratic Party was not a unit in its favor, however. Senator John M. Niles, of Connecticut, a Democrat, made an important speech, which would be applicable now as it was applicable then. It had been said by those who spoke in favor of the bill that a protective tariff created monopoly and enabled those benefited thereby to demand extortionate prices. In other words, the same argument was used against the tariff then as is used against the tariff now. In Senator Niles's speech against his party's determination to interfere with the then prosperous condition of the country by lowering the tariff, he used this language:

“Why disturb the business and pursuits of the people? Why unnecessarily agitate and alarm the country? . . . I have again and again asked for the reasons for passing this bill at this time, and could get no response, no reason. We now have one, and what is it? Why, to curtail the profits of the large and wealthy manufacturers. But, sir, the fact is assumed; there is no evidence as to those large profits. But, admitting it to be so, will not competition correct the evils? Will it not bring down these enormous values? With an enterprising people like ours, will there not be enough to rush into any business which affords such enormous profits? But is not this something new? Is it not a strange reason? Can any example be found in the history of the world of a legislature passing laws to arrest the prosperity of

the country, or to reduce the profits of any particular class of citizens in a pursuit open to all? Certainly, sir, this must be the great measure of the age when we consider the great good it is to effect; when it is to stop individuals from getting rich too fast, and to check the prosperity of the country.

“The Senator says it will not affect the laborers, the mechanics, nor the small manufacturers. Now, how does he know this? I tell him he is mistaken; those are the very men on whom the blow will fall. You may diminish the profits of the large establishments some, but you cannot crush them. They can stand by warding off the blow and transferring the sacrifice to others. They have hundreds, and some thousands, of laborers in their employ, and they will save themselves by reducing the wages of those in their employ. The blow then falls directly upon the laborers.

“But how is it with the mechanics and small manufacturers? Those who do their own work and perhaps employ a few apprentices? They must sustain the sacrifices themselves. They will not be able to sustain a competition with the large establishments. But why is this experiment to be tried? To see how much reduction labor will bear? Is it to carry out a theory? Is it to test the cold, heartless, miserable theory of free trade?”

And now comes the interesting part of the controversy as it relates to North Carolina. Rather than vote for a bill that would close the New Eng-

land factories which consumed cotton and furnished employment for labor in its conversion into fabrics with which to clothe American people, A North Carolina Senator William H. Haywood, of this Statesman. State, resigned his seat and retired to private life. He did not see his way clear to vote against his party, and he would not vote for what he believed to be a vicious bill.

In Senator Haywood's address to the people of his State, while describing the effect of tariff legislation of the pending character, he used this language:

"Infant factories are destroyed by the hand of legislation, and the older and more mature establishments are compelled to diminish their operations forthwith and consequently discharge a number of their laborers and reduce the wages of all. The laborers suffer more than the owners because they are less able to bear it. The sudden loss of work will be to many of them and their families a loss of food and raiment; and that for which the lawmaker is commanded to pray—his daily bread—he thus rudely takes by law from the workingman of his country."

The resignation of Senator Haywood left the opponents of the bill in control in the Senate, which would have defeated the measure had not Senator Spencer Jarnagin, of Tennessee, deemed himself bound by a resolution of the legislature of his State to vote against his convictions and for the bill.

The friends of free trade and tariff for revenue only have always cited conditions following the enactment of the Walker Bill, the law of Effect of the 1846, in proof of their position that Walker Tariff. good times are possible with low tariff laws in force.

The Mexican War, the discovery of gold in California, and the Crimean War delayed ruin longer than usual after such reduction in the tariff, but some conception of its ultimate effect can be gleaned from the fact that in little more than a decade revenues had fallen so far below expenditures that the Government was again forced to borrow money as it did during the preceding period of Democratic supremacy. Its effect upon labor is graphically expressed in an address by unemployed men made to the Mayor of New York City on January 6, 1855. Listen to their cry:

“We do not come as beggars, but we ask what we deem right. We ask not alms, but work. We don't want a little soup now and cast-off clothing tomorrow. But we do want work and the means of making an honest livelihood. The condition of the working classes is most piteous. They want bread. Is there not enough in the city? They want clothes. Is there none made nowadays?”

On January 15th of that year Horace Greeley, in an editorial in the *Tribune*, describes a pitiable sight in this language:

“Who is hungry? Go and see. You that are full fed and know not what it is to be hungry—perhaps never saw a hungry man—go and see. Go and see the thousands of men and women, boys and girls, old and young, black and white, of all nations, crowding and jostling each other, almost fighting for a first chance, acting more like hungry wolves than human beings in a land of plenty, waiting till the food is ready for distribution. Such a scene may be seen every day between eleven and two o'clock around the corner of Orange and Chatham streets, where charity gives a dinner to the poor, and soup and bread to others to carry to their miserable families.”

He then cites several other places in the same ward where over 6,000 were fed by charity every day, and says the same thing was going on all over the city.

The next Democratic tariff was the Wilson-Gorman law passed during Mr. Cleveland's last administration. If you do not personally remember the effect of this tariff reduction upon commerce and industrial conditions, ask your older brother. He will remember.

I presume you have been told, for it has been many times said, that the panic of the nineties came without cause, and bore no relation whatever to threatened economic legislation or actual enactment thereof. Doubtless your attention has been called to the fact that times remained good during Mr. Cleveland's first administration, and this

has been cited to prove that it is immaterial which party controls the affairs of the Government, so long as the men in office are honest and are doing the best they can. Let me remind you that during Mr. Cleveland's first administration the Senate remained Republican, and no tariff legislation, though earnestly urged by Mr. Cleveland, was enacted. The House, being Democratic, passed the Mills Bill, but the Senate refused to concur, and thereby saved the country from disaster such as always has followed the enactment of a tariff law for revenue only. Grover Cleveland was a free trader when first elected President, and he has remained a free trader from that time till now. I do not censure him for his belief. Other good and patriotic men have believed the same thing. Other men with bright intellects have failed to analyze the question and appreciate the relation between constant employment for the wage earner and continued prosperity for those who supply the wants as well as the needs of the well-paid artisans. Other men of learning have failed to understand cause and effect as shown in the record of our material growth and development.

The question for you young men to decide is not the relative intellect, the relative erudition, the relative wisdom, or the relative patriotism of Grover Cleveland and William McKinley. It does involve, however, the relative merits of the two schools of economics: the one protection for American labor, the other free trade or tariff for revenue only.

—IN NORTH CAROLINA, 1906.

XI

THE REPUBLICAN PARTY AND THE TARIFF

THE Republican Party is, and ever has been, progressive. It has gone on solving problem after problem, and while it has sometimes hesitated and occasionally tripped, it has neither fallen nor fled. It has met its every responsibility and fulfilled its every pledge.

It is impossible to appreciate the steadfast, onward course of the Republican Party without comparison with the record of our political opponents. The first complete victory achieved by the Democratic Party in a third of a century was in 1892. That victory was won in a clean-cut, good faith, and honorable issue between the cardinal doctrines of free trade and protection. The opposition platform of that year declared it to be "a fundamental principle of the Democratic Party that the Federal Government has no constitutional power to impose and collect tariff duties except for purposes of revenue only." The Republican Party, on the contrary, referring to the universally recognized prosperity of the country, gave just credit to the cause thereof by the use of this language:

"We maintain that the prosperous condition of our country is largely due to the wise revenue legislation of the last Republican Congress."

Thus the issue was joined. Our opponents appealed to the American people as consumers, and commiserated them. We appealed to Opposition to Tariff of 1890. the American people as producers, and congratulated them. They said, "The things you buy are excessively dear." We said, "The things you sell, both labor and the products of labor, are none too dear." They said, "You deserve a better market in which to buy." We said, "You deserve no poorer market in which to sell."

They iterated and reiterated the statement that "the tariff is a tax," and stoutly maintained, from one side of the country to the other, that the abolishment of the protective tariff would afford the people cheap articles of consumption without affecting the price of our products. They placarded America with posters, and sought to teach through the eye by primer pictures in which the family was followed from the time they arose in the morning from beds supplied with woolen blankets taxed at sixty per cent to their winding sheets taxed at fifty per cent. The breakfast table taxed at twenty-five per cent occupied a prominent place in the array of pictures. The family were eating from dishes taxed at fifty-five per cent, with knives and forks taxed at forty per cent; they sprinkled salt taxed at twelve cents per hundred upon potatoes taxed at twenty-five cents per

bushel, while the wife and mother rocked the cradle taxed at twenty-five per cent. After breakfast the father put on his hat taxed at fifty per cent and went to his daily task with his hoe, his shovel, his plow, or his pick, each taxed at twenty-five per cent. The object of their pity was next seen eating from his dinner pail taxed at fifty-five per cent. The next picture, as I remember it, was the family at worship, where they listened to the reading of the Scriptures from a Bible taxed at twenty-five per cent. The last two pictures were a coffin taxed at thirty-five per cent and a tombstone taxed at forty per cent. They told us through the eye and through the ear, and appealed to our prejudices through both, that from our cradles to our graves we were taxed! taxed! taxed! They told us not only that our living expenses but that our dying expenses were each excessive, and they promised that if they were put in power they would give us cheap things to buy by wiping protective tariffs from the statutes.

The American people are somewhat alike in their religion and in their politics. When on their deathbed physically they remember the teachings of their childhood; when on their deathbed financially they remember the Republican Party; but when in good health and prosperous they are prone to forget both. The year 1892 was the most prosperous we had ever seen. Measured both by the demand for labor and by the price thereof, measured by the price of farm produce, measured by the output of our

1892 a
Prosperous
Year.

factories, measured by the earnings of our railroads, measured by our exports, measured by our imports, measured by the business done through the clearing houses, measured by the money deposited in the banks, measured by anything and measured by everything, 1892 stands without a previous parallel. The Republican Party said, "Let well enough alone." The Republican Party said, "Stand pat." President Harrison shouted to the people again and again, "Gentlemen, there is such a thing as having goods too cheap. Gentlemen, there is such a thing as having goods too cheap."

But those of our people who bought bread and had no wheat to sell were dissatisfied with the price of flour; and those who purchased meat and had no cattle to sell believed themselves imposed upon; and those who bought butter and eggs and chickens and had none of these things to sell were displeased with their price; and those who bought lumber and nails and tools and barbed wire and clothes and woolen blankets and had nothing to sell but farm products were likewise dissatisfied; and each and all were made to believe that lower tariffs would relieve just where they were then pinched without pinching in a yet more tender place, and they registered both their dissatisfaction and their hopes at the polls.

The result was a landslide. The Democratic Party carried New York, Connecticut, Indiana (the home of the Republican candidate), Illinois, Wisconsin, California, half of Michigan, and yielded only a plurality even in Iowa. We were defeated, horse,

foot, and dragoon. We went out of control, but not in disgrace, for with lasting pride do we now turn to the record of that same year. We had little left except the principles of the Republican Party, but those principles, gentlemen, afford sufficient capital on which to begin business. We have never yet abandoned them for the sake of victory, and should we ever do such a disgraceful thing the Republican Party will cease to be, as it has been for fifty years, and is bound to be so long as we stand true, the abiding hope of the American people.

I have often criticised the opposition party for its inconsistencies. The personnel of the party is good, and the party would be a great blessing if it had any set of principles which it held sacred and to which it would adhere. I have said that it seems to me that the leaders of the Democratic Party have evidenced vastly more anxiety to discover an issue on which they may win a campaign than they have in formulating a wise policy for the administration of public affairs after they have won their campaign.

How Prosperity Was Blasted. Their issue in 1892 was the abolishment of the protective tariff, and their argument was cheaper articles of consumption. But no sooner did the party secure control than they gave evidence of fatal incoherency. Grover Cleveland believed in the platform on which he was elected, and his message rings true to free trade; but the men who were elected with him upon that same free-trade platform passed the Wilson-Gorman law, built upon no principle and full of inconsistencies.

Mr. Cleveland declared the bill to be full of "perfidy and dishonor" and refused to sign it. It protected iron and steel and a score of other articles, but put wool and coal and twenty other things on the free list, and lowered the duty below the point of protection on twice as many more.

Free wool drove 4,000,000 sheep to the slaughter-house in twelve months, and this, coupled with the closing of factories, forced the price of live stock so low that the price of horses, steers, cows, calves, sheep, and pigs sold in Chicago fell off on the average over \$5 per head in four years. Three million men forced out of employment reduced the average consumption of wheat from about six bushels per capita in 1892 to less than three and a half bushels in 1894. Those who bought bread and had no wheat to sell, and those who bought meat and had no cattle to sell, may have found relief where they had been pinched; but they were pinched in a yet more tender place. They were pinched in their capacity to buy these things at any price.

Factories extinguished their fires right and left. Lockouts enforced by bankruptcy were of daily occurrence; banks closed their doors by the dozen each day for months, and for four years no farmer in the whole Northwest built house or fence or dovecot, and repaired only from necessity.

—AT THE REPUBLICAN GOLDEN JUBILEE CONVENTION, PHILADELPHIA, PA., MAY 18, 1906.

XII

IMPORTANCE OF HOME MARKET

IT should be remembered that the arguments of the fathers in favor of protective tariffs were based upon conditions known to the fathers. The price of labor in the United States was not then higher than in other countries, and no one anticipated the marked difference which has developed. It was therefore assumed and urged that if American industries could be protected until they were thoroughly established, thereafter they would be able to survive. It follows, therefore, that the infant-industry argument, pertinent when used, is now outgrown. The early advocates of protection were wiser than they knew, and the American scale of wages—from fifty to one hundred per cent higher than in other countries—makes necessary a continuation of the protective policy responsible therefor.

There is one other marked difference in conditions prevailing now and fifty years ago. The cost of transportation from Europe to the United States at one time afforded quite a degree of protection to the American producer. Cheap freight rates have very nearly wiped this out, for the English mechanic can now pay the freight on a year's supply of food

from Chicago to Liverpool with the proceeds of a single day's work.

I am not urging that the existing iron and steel schedule should be continued indefinitely, but I do insist that to remove the tariff altogether Iron and Steel Schedules. would permit European producers of iron and steel in every time of financial depression to unload their surplus in this country to the closing of every factory and the extinguishment of every furnace; and this in turn would result in the discharge of more than a half million operatives. If freight rates were as high as they were when Daniel Webster and Henry Clay made their famous speeches in behalf of protection, tariff rates on the products of well-established industries could be made much lower than would be safe under existing nominal freight rates.

I desire to call attention to one other marked difference in the position taken by the two parties. The Democratic Party has always laid The Foreign vs. the Home Market. sole stress upon the importance of the foreign market. The Republican Party, ever mindful of the importance of the foreign market, lays greater stress upon the importance of the home market. Every Democratic speech and every Democratic message to Congress within the last forty years has emphasized the value of the foreign market to the utter belittlement of our enormous and unequalled home market.

—AT DES MOINES, IOWA, 1904.

XIII

INSULAR TARIFF

IN March, 1906, Verne Orr wrote a letter asking light on the question: *Resolved*, That the United States is justified in imposing a tariff to her tropical and semitropical dependencies, and asking for some literature on the subject, to which Mr. Shaw replied as follows:

MY DEAR SIR: I know of nothing that will throw any light on your debate. Some three or four years ago Senator Spooner made an exhaustive speech on the constitutionality of the proposition, but I presume you do not care to go into that phase of it. It is conceded that Congress is justified under the Constitution in levying duties on the products of our insular possessions. The advisability is another question. Many contend that the United States should protect her own industries against all the world, including our insular possessions, and that it should give our insular possessions the advantage over all others. Let me illustrate: It is claimed that if the Government should find it appropriate to levy a tariff of, say, four cents a pound on coffee, it could well afford to give our insular possessions the bene-

fit of fifty per cent of this. The tariff would then be two cents on coffee from Porto Rico and the Philippines, and four from Brazil. Such a course would insure a market for all the Porto Rican and Philippine product. The present duty is equivalent to a cent a pound on refined sugar, with twenty-five per cent off for Cuba. The admission of the little sugar from Cuba does not affect the domestic market and ought to help Cuba. Whether it does or not is a grave question, but it ought to be of assistance. If our beet sugar industries, and Cuba, and the Philippine Islands, and Porto Rico jointly, were able to supply our demands, the duty generally could be increased to two cents with one half off for our possessions.

I am giving you this to illustrate the logic of the proposition. We would then take care of our own as now and give an advantage to our possessions over all others. This course, you see, would justify the affirmative of your debate. Your question strikes at the principle itself, and not at the practical operation of graduated duties.

I only mention this to suggest a possible line of reasoning.

XIV

THE STAND-PATTER

IN some localities the term "stand-patter" is opprobrious. What is a "stand-patter"? I have never witnessed the game whence the term is derived, but I do not plead such innocence as not to understand what is meant by it. Dear Senator Hanna first employed it in its political significance in 1903. He then said: "I say, stand pat." What did he mean when he said, "I say, stand pat"? Did he mean that the tariff should never be revised? Certainly not. Looking at our hand, if you please, noting what we held, with full comprehension of what the result of the game would be, he said: "In the face of what we now hold, stand pat." He did not even intimate that we were likely to hold the same cards each year and forever. He did not say that the tariff should never be revised, nor did he intimate that it might not be wise to revise it five years hence or even one year hence. Speaking in the present tense he said, "Stand pat."

Twelve months later he sounded the slogan, "Let well enough alone." Looking at conditions, seeing every factory running overtime, observing the farmer selling his produce higher than ever before,

knowing that the American people were consuming seventy-five per cent more wheat per capita than in 1894, knowing conditions, he said, "Let well enough alone." He did not even intimate that these conditions would continue forever. He did not say that the tariff should not be revised at any time in the future, or that it might not be wise to revise it in the early future.

But why this criticism of stand-patters? Let us avoid any division in our own ranks. The Republican Party is now standing pat. Does any- Who Asks
one seek to impeach the party as a or Revision?
party? Of course the opposition party does. They always do. Does anyone else? The last national convention did not promise revision. The President has not advised revision. The President has made no speech at any place or at any time which justifies the inference that he favors revision. The Ways and Means Committee of Congress has reported no revision bill. The Republican Congressional caucus has not recommended revision. I repeat the Republican Party is standing pat, and the Republican who now seeks to convict his party of neglecting the best interests of the people simply embarrasses the family of which he is a member. I am not discussing the merits of revision. These local revisionists for the sake of local interests may be correct. They certainly should not be asked to apologize, for they have meant well, but they are in no position to exact an apology from those who are and who have been in harmony with the last national platform, with the

speeches and messages of the President, and with the action of Congress.

The Democratic leaders propose to wage the forthcoming Congressional campaign upon the issue presented by the Republican revisionists, and they are certain to quote the utterances of every leading Republican who has urged revision.

Let me not be misunderstood. I will not call in question the Republicanism nor criticise the good faith of any member of my party, however much we may differ as to the time when the tariff shall be re-adjusted. I do wish to emphasize the fact, however, that the party, as an organization, is standing pat, and that the party, as an organization, will revise the tariff at the appropriate time. The stand-patter of to-day will be the revisionist when revision is had.

It does not lie with me to say when the task of revision shall be undertaken. If I were to say that

Revision	in my judgment it should be done imme-
When.	diately following the next inauguration,

and if it should not be done then, I would at least embarrass myself, and to the extent of my influence I would embarrass my party. The next national convention will very likely consider the subject, and if it shall declare in favor of revision at an extraordinary session immediately following inauguration, no loyal Republican will take issue. Loyal Republicans seldom take issue with their party.

In my State for five years some of my political brethren have strenuously contended for an immediate revision of the tariff. I have thought it unwise

to teach the people that our party is neglectful of any of the people's interests. In the first place, I have not believed they are being imposed upon. I have recognized that there are some inequalities in the present tariff law. If I could do it in a night I would make a number of changes. But while I have recognized that the Dingley tariff law, like every other tariff law ever made, and like every other tariff law that ever will be made, is imperfect, I have recognized that its operation has brought employment to every man who is willing to work and has secured to every toiler unprecedented compensation. Wages will never be too high to suit me; but when they are higher than ever before, when there is no man out of employment who seeks to be busy, I am disposed to congratulate rather than to commiserate. Recognizing that the farmer has never sold his products so high, and also that the average laboring man has never been able to buy so many of the necessities of life with a day's work as now, I have not from the stump taught the American people that their best interests are being neglected by the party to which I belong.

Neither would I teach discontent if I believed it important that the tariff be immediately revised. I have never urged tariff revision, and I have never opposed tariff revision. Why Teach
Discontent ? Why should I? Who am I? I am but a nurse in a great sanitarium, a majority of the physicians in charge of which practice the same school of medicine of which I am a disciple. When these doctors meet in council

next December (when Congress convenes, if you please), if they invite me I will tell them the symptoms which I have observed, and if I deem it of sufficient importance I will knock at their door. I will not, however, call the inmates of this great institution together and tell them that their health is being undermined and their lives endangered by an overdose of the very medicine which I believe should be administered. I will not encourage insurrection within an institution in the administration of which I have been assigned an humble position.

No political party within the last fifty years has ever revised the tariff downward and carried the next election. The Republican Party tried it in 1883, and Mr. Cleveland was elected in 1884. The Democratic House tried it in 1887, and the Republican Party elected the President and the Congress in 1888. The Republican Party attempted to lower the tariff on October 1, 1890, and a Congress Democratic by 142 majority was elected thirty days thereafter. The Democratic Party consummated revision in August, 1894, and seventy days thereafter a Congress was elected Republican by 82 majority.

I do not believe the Republican Party will ever again undertake a revision of the tariff on the eve of an election. I do believe, however, it will in the comparatively near future readjust some of the important schedules and smooth out some of the admitted inequalities. The only safe time to attempt a process of this kind is at an extraordinary session of

Congress, called immediately upon the inauguration of a new administration. Business will then have time to adjust itself before the next Congressional election, and there will be time to justify the wisdom of the act before the next Presidential election.

I desire to throw out a note of warning to my friends in the agricultural States. Bear this in mind, that there are several times as many people demanding cheaper food as are demanding a reduction of the tariff on any manufactured article. No One State Can Revise the Tariff. No one State can revise the tariff in the interest of that State only. There are localities willing to sacrifice every suggestion of protection which the Dingley law affords Dakota, in the open and avowed hope that by so doing additional markets may be obtained for their own products. It is fortunate, therefore, that no one State can revise the tariff.

I do not demand that our forests shall be saved from competition with the forests of other countries. None of our people are producing forests, and we do not have a limitless supply. Logs and pulp wood are now on the free list. Only the manufacturers of lumber are protected, and some of this will very likely be removed whenever the tariff is readjusted. Appropriations to restore our forests are inconsistent with the policy of protection to those who are engaged in hewing them down.

—BEFORE THE REPUBLICAN STATE CONVENTION OF SOUTH DAKOTA, JUNE 4, 1906.

TARIFF REVISION

XV

REVISION INADVISABLE

A LETTER TO THE PRESIDENT

WASHINGTON, D. C., August 3, 1905.

DEAR MR. PRESIDENT: I am constrained to say another word about the tariff. I am abidingly convinced that to revise the tariff during the next session of Congress will give you a Democratic Congress for the last two years of your administration, and that to revise during your administration will give a Democratic successor. Moody is right when he says that a revision without putting hides on the free list will make Massachusetts a Democratic State. Wilson is equally right in saying that to put hides on the free list will carry three, and probably five, States to the Democratic Party. While agreeing with both of them, I agree with you that the issue between free and dutiable hides is relatively immaterial to everybody. The leather manufacturers of Massachusetts have no difficulty, or I will say little difficulty, in getting drawback on the leather used in the manufacture of shoes for export. There are a

few articles on which the tariff could be lowered with safety and, I think, with benefit; but such changes would not increase importations, and therefore would not affect revenues. The difficulty in the way of revision lies in the fact that each man has three articles, more or less, on which he thinks the tariff should be lowered, and as many on which he thinks the tariff should remain. When revision is accomplished, if the tariff is not lowered in each instance where the individual thinks it should be lowered, and is not maintained in each instance where he thinks it should be maintained, he is angry through and through. He says, "Look at it. They refuse to lower the tariff in such a place and lowered it in such a place." He may be displeased if Congress refuses to revise, but when it does revise he is angry.

There is but one man in the United States who can quiet this agitation absolutely and the people will approve, and that man is the most honored as well as the most beloved, and none other than yourself.

Very truly yours,

L. M. SHAW.

THE PRESIDENT,
OYSTER BAY, N. Y.

XVI

INCONSISTENCIES OF REVISIONISTS

IT is amusing to note how those who desire a lowering of the tariff find reasons in every condition to justify their argument. Each change in condition only emphasizes their demand.

Five years ago current revenues exceeded current expenditures, and Democrats demanded that the tariff should be readjusted so as to prevent an accumulation. Then, because of the purchase of the Panama Canal strip and because of a slight falling off in revenue, there was a deficit. Immediately the Democrats insisted that the tariff should be lowered so as to invite larger importations and, therefore, larger revenues.

Larger importations, however, followed increased prosperity. Hence revenues are again excessive, and our friends still demand that the tariff shall be revised, but this time, as at first, because of its excessive returns.

In taking these opposite positions they but repeat their history. In 1844, before the passage of the famous Walker Bill which ultimately brought ruin to all our industries, a sub-committee of the Ways and Means Committee was

appointed. This committee continued its work for a long period of time. Their first tentative report recited the fact that revenues were insufficient and that the tariff must be revised so as to increase the revenues. Before the committee had completed its work, however, revenues increased, and the subcommittee then stated that this but emphasized the need of lowering the tariff, because, they said, "if goods come in in the face of so high a tariff, it is manifest it ought to be lowered."

Knowledge that a tariff is to be lowered is quite sufficient to disturb financial conditions, though no legislation is actually passed. During Mr. Cleveland's first administration he recommended a lower tariff, and the Mills Bill, in harmony with his recommendation, passed the House. The Senate refused to pass it. Pending these negotiations, however, the price of live stock sold in Chicago fell off \$36,000,000.

How Tariff
Changes Dis-
turb Business.

A friend of mine was in Boston the day Congress convened in 1893, for the purpose of selling his wool. He was offered a certain price. If I remember correctly it was twenty-four cents. He refused to sell and started home.

The next morning he picked up the daily paper and read President Cleveland's recommendation that the tariff be taken off wool. He immediately telegraphed the firm that he would accept its offer. He received answer as follows: "We, too, have read the President's message."

If it be urged that this argument carried to the

extreme will prevent any revision of the tariff at any time, I answer that it leads no more to such a conclusion than does the argument that the tariff shall be revised whenever conditions change lead to the conclusion that the tariff should be revised each year.

No tariff was ever perfect, and conditions never remain the same for eighteen months. If Congress were to attempt to correct every inequality or to change the tariff to meet every changed condition, it would do little else than to revise and rerevise schedules. As a matter of fact, business adjusts itself to tariff laws much more readily than can Congress adjust tariff laws to business. The tariff will be revised in due time. The date of this revision no one has a right to predict.

When the next tariff revision comes, the farmers are likely to feel it quite as much as any, for the demand for cheaper food products far exceeds the demand for cheaper manufactured products.

The people who want the cheaper wheat from Canada, and the cheaper meat from Mexico and South America, cast more votes than those who desire cheaper steel rails. So when the day of revision comes let the good people of the agricultural States prepare themselves for the conflict. If the tariff is revised downward every section must yield something, for every tariff law is an aggregation of compromises.

Business Ad-
justs Itself to
Tariff Laws.

The Tariff
on Farm
Products.

Let no man hug to his soul the delusion that any one State can revise the tariff in the interest of that State only. This is most fortunate. To The United States a Unit. safeguard our people at this very point the Constitution of the United States expressly clothes Congress with exclusive authority over all customs matters, and specifically provides that all bills pertaining to the subject shall originate in the House, where every Congressional district is represented.

When I was a little boy I quarreled with one of my fellows over the relative merits of our respective families. Our world was very small then. I well recall my surprise some years later when my father expressed the belief that there were other towns in Vermont quite as good as Stowe. A little later still, I put 1,200 miles and the Big River between me and the roof that had protected my boyhood, and with this broadening of the horizon I learned to love the far-reaching prairies and the hopeful, prosperous people of my adopted State. Circumstances have since taken me to every State in the Union, and I have been more or less a student of the industries of all communities, and I declare to you that there are forty-five States, with assurance of more soon to be admitted, where it is a blessing to live, and whose people, whose industries, whose prosperity are as sacred and as much entitled to protection as are the people and the industries of any other given town, or county, or State.

—AT WINNEBAGO, MINN., 1906.

XVII

NOT OPPOSED TO READJUSTMENT

I HAVE been quoted as opposed to revision of the tariff. I have never opposed revision. Whenever Congress reaches the conclusion that the friends of protection are strong enough to conservatively modify certain schedules, so as to meet changed conditions and at the same time successfully resist the efforts of the opposition to revise the entire tariff law, thus paralyzing business for a season, I am in favor of it. I have expressed some doubt, however, about the wisdom of instructing by resolution, or exacting pledges from candidates for Congress when the effect is liable to precipitate a protracted debate with very uncertain results.

There ought to be some more tangible reason for such a dangerous expedient than the existence of a sentiment in certain localities, now, as Demand
Largely always, favorable to a reduction of the
Sentimental. tariff on articles there consumed and not produced, while it stands ready to fight to a finish any reduction on every local product. I for one must have a very bitter and relentless enemy before I will consent to carry yellow-fever germs into my home town.

I am not comparing the readjustment of a schedule here and there to an epidemic, but I do declare there has never been a revision of the tariff in the interest of free trade, or for revenue only, that has not proven as fatal to business as the plagues of Egypt.

I have never seen the time, since I have given public questions consideration, that I would not reduce the rate on quite a large number of items, nor when I would not increase the rate on other items.

It is not likely that any member of either House of Congress ever voted for a tariff bill entirely to his liking, nor is it probable that any President ever signed a bill that he would not have changed in some particular had it been in his power. I am willing to concede that conditions change, and that the old Morrill Bill of the sixties, for instance, when the country was involved in war, would not be appropriate for us now; but I will not admit that the tariff is the mother of trusts, nor will I concede that any trust owes its existence to the protective principle. Neither will I concede that a tariff for revenue only will destroy trusts on any other theory than that a fire in a wheat field will destroy Canada thistles.

Business depression dissipates both organized and unorganized capital. Enforced idleness means financial ruin to individuals, to business firms, and to corporations both great and small. On the contrary, business prosperity inspires hopefulness. It encourages the individual to reach out, to

Tariff Not
Mother of
Trusts.

Business and
Capital.

expand, to buy more land, more houses, more cattle, to erect more stores, build more shops, and to embark in new enterprises. It leads to the organization of corporations. It inspires both dreams of greater things and the consummation of gigantic enterprises. It leads to the combination of capital and the organization of labor. Organized capital dissipates and labor unions perish with the approach of hard times, whatever the cause.

Does anyone suppose that the anthracite coal miners could be kept together if there were a million men out of employment and their families begging bread? Will anyone contend that they could be sustained were it not for a great army of bituminous coal miners who are receiving such compensation as enables them to contribute \$1 a week for the maintenance of their brethren? The protective tariff is not the mother of trusts, though it is the parent of conditions that make it profitable for capital to combine and congenial for labor to organize.

Philip Armour once told me that he got rich, while a young man, by watching the iron and coal miners. Whenever these men were at work, he said, he used to pack every ham he could get his hands on. His partner would say, "Phil, you will break us up." He would answer, "No, these fellows are working." But when the coal and iron workers were idle, he said, he used to sell everything. The secret of American prosperity can be couched in four words: "They are working now."

And "they" means everybody—farmer and ar-

tisan, mechanic and merchant, the man at the forge and the man in the field—and they are all interdependent.

The representatives of the people from the manufacturing districts of New England, from the coal regions of Pennsylvania, Indiana, and Ohio, and the iron-producing regions of Michigan and the iron-manufacturing districts of Ohio and Pennsylvania, the agricultural districts of the Middle West, the stock ranges of the mountain States and Territories, the rice and cotton States of the South, and the fruit and lumber districts of the Pacific coast, should get together, and if they can agree upon one or a dozen items in the present tariff schedule that can be reduced, let it be done, and done without three months' acrimonious debate.

Certainly no man will contract for the construction of any large building while Congress is considering a bill that has for its object the cheapening of iron and steel, granite and marble, glass and lumber. No factory will put in a very large supply of material pending a three months' debate on a bill proposing a reduction of the tariff on hides and wool.

When I was a boy we could always tell when the miller was picking his burrs because the mill was shut down. I anticipate there will be those who do not favor shutting down the mill while we are turning out as much product of a good quality as at present, especially if it is likely to take very long to restore conditions.

—AT MORRISVILLE, VT., 1902.

A GRADUAL REDUCTION OF THE TARIFF RUINOUS

In December, 1904, a Cornell College student wrote Secretary Shaw that he was to take part in a debate and was assigned the affirmative of the question: "*Resolved, That the tariff should be gradually reduced to a revenue basis.*" Mr. Shaw replied in part as follows:

MY DEAR SIR: You have assumed a hard task to defend a gradual reduction of the tariff or to defend a tariff for revenue only. I assume that is what is meant by the language employed in the question to be debated.

A tariff for revenue only and free trade are identical. There is no such thing as a tariff for revenue only with incidental protection.

I can think of nothing more detrimental or ruinous to commerce than a gradual reduction of the tariff. Business in time will adjust itself to any fixed tariff law. Some industries may be ruined altogether and others may be fostered, but in time adjustment will take place. A gradual change in the tariff would leave everything uncertain. No manufacturer would dare purchase material or plan for large production if the measure of his protection was gradually decreasing. No one could tell when the point would be reached where protection would cease, and the industry would be ruined by an inundation of foreign manufactures. In fact, the question implies that the reduction is to continue to the point of free trade.

You say in your letter: "I understand that you have changed your views somewhat."

I have never thought the Dingley law perfect, nor have I thought it sacred. I have always had in mind some changes that I deemed advisable, and I have always believed in making such changes at the proper time. I have been opposed, and am now opposed, to stirring up popular discontent prior to the time when the changes can be made. Whether the time has now arrived is for Congress to say and not for Shaw. The difficulty between the stand-patters, so called, and the revisionists, so called, has been this: revisionists have advocated an immediate reconstruction of the tariff laws, and have sought to make Republicans generally dissatisfied with the administration and with Congress because of its failure immediately to follow their recommendations. But the revisionists have disagreed among themselves as to what items should be changed, and no one of them was willing to yield a reduction on anything produced in his community. Stand-patters, on the contrary, knowing that Congress is not yet ready to act, have urged silence on the subject until the proper time arrives, believing it unwise to breed dissatisfaction within their own ranks. No stand-patter has ever taken the position that the Dingley law should remain unchanged forever. I do not know where you got the impression that my views have changed. They have not in the least.

XVIII

TARIFF FOR REVENUE ONLY

IN January, 1906, David Rankin, a college student, wrote stating that he was to take part in a joint intercollegiate debate on the question: *Resolved*, That under existing conditions the continuance of the protective tariff policy is preferable to a gradual reduction to a tariff for revenue only. He asked some suggestions. Mr. Shaw replied as follows:

MY DEAR MR. RANKIN: The question submitted refers to "a policy of gradual reduction to a tariff for revenue only." No gradual reduction would result in a tariff for revenue only. A tariff for revenue only and free trade are identical. England collects more tariff duties per capita than the United States; still she is known as and is a free-trade country pure and simple. She levies her tariff for revenue only, and in no degree for protection. She puts a tariff on beer, and matches it with an internal revenue tax upon domestic beer lest the domestic producer shall have the advantage over the importer. You see you have a question that is not debatable. If you can hold your opponents to the issue, probably in the

minds of the formulators of the question you ought to win out if you have the affirmative, and you ought to be wiped from the face of the earth if you have the negative. I suppose the question means whether it would be better to continue our protective policy or gradually change to a tariff for revenue only, which, as I say, is identical with free trade.

I might suggest this thought, which you can develop. A tariff which protects will of necessity yield little revenue, and a tariff which yields much revenue will, in the nature of things, fail to protect. There is no such thing as tariff for revenue only with incidental protection. There is no such thing as tariff for revenue only with protection some. A tariff for a sole purpose is not a tariff for two purposes. Let me illustrate: The United States has a tariff on sewing machines of forty-five per cent. This yields no revenue because it effectually protects the American manufacturer. If the duty on sewing machines was reduced to a revenue basis, it would have to be low enough to insure the importation of the sewing machines which the American people consume, else it would yield no revenue; and if it was reduced sufficiently to insure revenue it would close our sewing-machine factories. You can apply this principle to everything produced in this country.

Permit a parable which I think quite fairly represents the issue involved in the revision proposition urged by all of our political opponents and by some most excellent men who profess to believe the principles of our party:

A Parable.

Partly because of better soil and partly because of better husbandry the feed in my father's pasture was always much better than in adjoining inclosures. I have seen the neighbors' stock standing with their heads high looking wistfully over the fence, some of them mooing and some of them neighing. But my father fenced for protection and not for revenue. Had he fenced for revenue he would have made them low enough to permit ingress or it would have yielded no revenue. Owing to a difference in the contour of the land and the nature of the soil it was found necessary to make the fences higher at some places than at others. A uniform fence might have afforded ample protection in some places and no protection at all at others.

Sometimes the hired man would come and report to father that he thought the fence was unnecessarily high on one side. But my father would never quit plowing corn to remove an unnecessary rail. But when the hired man reported that the stock was breaking in he would stop on his way to church to put on a necessary rail. My father fenced for protection and not for revenue.

THE TARIFF AND THE INTERNAL REVENUE TAX

In August, 1905, Mr. Norman Lichty addressed a letter to Secretary Shaw relative to a proposed stamp tax on proprietary articles and tariff revision, to which Mr. Shaw replied as follows:

MY DEAR MR. LICHTY: I note what you say with reference to a stamp tax. Similar remarks have been submitted with reference to an increased tax on beer, or a tax on coffee, and several things besides. I think it was Sidney Smith who said that the question of taxation was the art of getting the maximum feathers from the public goose with the minimum of squawking. The question first to be determined is whether more feathers are necessary. If so, the public goose must yield them.

Seriously, I am at a loss to know where the additional tax should be placed, assuming that an additional tax must be placed somewhere. Can you suggest a place? There are many, and among the many a few who style themselves Republicans, who think that tariff duties should be lowered to the end that more merchandise may be imported, and therefore more revenue realized. The aggregate receipts from customs duties last year equaled a fraction less than fifty per cent of the foreign value of dutiable merchandise imported. Suppose Congress should lower this average to forty per cent, and that this should result in the importation of \$100,000,000 more merchandise. The increased revenue would be \$40,000,000, and the merchandise, plus the duty, would stand in our markets at \$140,000,000. Of the goods produced in this country, fifty per cent, or a little more, represents labor. The importation, therefore, of \$100,000,000 of foreign merchandise would take \$70,000,000 in wages from our wage earners. Whatever else is done, Congress will not rob labor

of \$70,000,000 for the sake of putting \$40,000,000 in the Treasury. As between that and a stamp tax on anything and everything stampable, the Republican Party will choose the latter.

You must not imply, however, that I am in favor of an additional stamp tax. I have not canvassed the situation sufficiently to know where the additional taxes should be levied, if indeed increased taxes are necessary. I certainly hope we can get through without increasing taxes.

DIRECT TAXATION

In January, 1907, a gentleman living in Columbus, Ohio, wrote Secretary Shaw making inquiries in regard to "our system of direct taxation levied for the purposes of the Federal Government," to which Mr. Shaw replied as follows:

MY DEAR SIR: I do not know where you can find speeches covering the questions you ask, and I have not time to answer them in full. You ask:

"1. Is it at all practicable to substitute a Federal inheritance tax law for all or part of our protective tariff, or for our tariff for revenue only?"

Certainly not for the protective tariff. Much of our tariff is prohibitory. We do not put a tariff on pianos and a thousand other articles for the revenue, but for the sole purpose of allowing the American workmen to supply the needs of the American people.

We get quite a large revenue from sugar. Of course it would not do to put a prohibitive tariff on sugar, nor would it do to remove the tariff altogether. We must encourage our people to grow sugar and we must give the American consumer the excess beyond what we grow at a reasonable price.

"2. Does the Federal Government need an inheritance tax in addition to our present revenue measures?"

I have repeatedly said that this Government can build an isthmian canal costing \$200,000,000 every twelve months, and the people never know that they have paid any taxes. The imposition of the extra taxes incident to the Spanish War passed unnoticed except the small tax on bank checks. We all noticed that and complained. It was an unimportant item, but it attracted attention.

"3. Would it be advisable for both the Federal Government and State Governments to levy an inheritance tax?"

There is nothing inconsistent in such a course, but I would not care to discuss the question of advisability. I will say, however, that I much prefer an income tax to an inheritance tax. The value of a stable government to a man cannot be measured by the amount of property on which he pays taxes. The opportunity to do business and to make money is worth more to one than to another. I see nothing inconsistent or un-American in levying a tax on incomes. I do see much both un-American and inconsistent in a policy of confiscating such per

cent of a man's estate as the conscience of the community will justify. Possibly we might educate our conscience to the point where we would willingly take all a dead rich man's estate, but we are not likely ever to take all a man's income. You will readily see that the rate of taxation on both incomes and inheritance is a matter of conscience. No one can lay down a fixed rule.

OPEN COMPETITION

A schedule of rates covering only the difference in the cost of production in the United States and in Europe can scarcely be called a protective tariff. If it costs one dollar to produce a given competitive article in Europe and one dollar and twenty-five cents to produce the same article in the United States, a duty of twenty-five cents will simply place the American producer in free and open competition with his European rival, and in the face of the universal practice of foreign countries to sell in the United States cheaper than at home will effect his complete ruin.

I admit that the Republican national platform in 1892 laid down such a rule, but on that commitment the defeat of the party was unprecedented. Having lowered the standard, the people at the polls repudiated both the platform and its promulgators, and indorsed the declaration that protection is robbery of the many for the enrichment of the few.

—USED IN CAMPAIGN, 1906.

DRAWBACKS AND FREE PORTS

XIX

THE DRAWBACK

A FOREIGN MARKET FOR AMERICAN LABOR

UNDER existing statutes merchandise may be produced, in bond of imported material, and exported without the payment of any duty whatever. The statute also authorizes a refund of ninety-nine per cent of the duty paid on any material consumed in the production of exported merchandise, provided the amount of such imported material actually incorporated into the exported article can be ascertained.

The purpose of these statutes is manifest. They were enacted for the sole purpose of enabling the American manufacturer to sell cheaper abroad than at home. There are many articles of American manufacture that must be sold abroad cheaper than at home, or not sold abroad at all. American flour, produced wholly from American wheat, is frequently impossible of exportation to Europe. The cheaper wheat of Canada can be ex-

*Intent of
the Statutes.*

ported at a freight rate quite as low as flour, and flour produced therefrom can be sold lower than that produced in the United States wholly from American wheat. The same is true of very many other articles.

The sole purpose of the law is to give employment to American labor, for by so doing we contribute to our home market. So long as the American manufacturer buys labor in the American market, pays the American scale of wages, and thus enables the American wage-earner to be a consumer of American food and clothes, fuel, and shelter, let there be accorded to him every possible encouragement in his unequal competition with the cheaper labor of other countries. When he sells in the American market, let him pay duty on competitive imported material, for by so doing he likewise contributes to the American market.

During the last fiscal year there was refunded in drawbacks to American exporters of merchandise, Would Extend the System. produced in whole or in part from imported material, approximately \$6,000,000. I believe this amount would be multiplied if our drawback laws were sufficiently liberalized. It is inconvenient and in some instances impossible to identify the imported material in a manufactured article and determine the date on which it was imported. An importation of raw hides is received to-day, for instance, at Boston. These hides are tanned and the leather consumed in the production of shoes, and the shoes are exported next October. The law requires proof that the particular shoes exported contain a

given amount of leather produced from hides included in a particular and definite importation. I see no reason for these exactions. If the manufacturer of shoes consumes imported leather, or leather produced from imported hides, then why not give him back the duty actually paid whenever he exports an article of the same general material provided it be further advanced in manufacture than the article imported?

—CONCORD, N. H., JANUARY, 1907.

THE DRAWBACK AND PROTECTION

In February, 1905, Mr. Henry Feig wrote to Secretary Shaw in reference to the application of the drawback law to flour manufactured from Canadian wheat, to which Mr. Shaw replied as follows:

MY DEAR SIR: The Legislature of Minnesota some time ago passed resolutions in regard to the drawback principle, the first two sentences of which read:

"The drawback is contrary to the spirit of a protective tariff. Tariff legislation must be generally applied if applied at all."

The fact that William McKinley was the author of the particular paragraph complained of, and that Mr. Dingley approved and reinserted the paragraph as prepared by Mr. McKinley in his bill, and that Attorney-General Griggs, speaking for William McKinley as a member of the Cabinet, wrote the opin-

ion interpreting the paragraph, would seem to be a reasonable answer to the proposition.

If I had been draughting the resolutions I would have begun as follows:

"Whereas, It is a commercial impossibility to export American-made flour at the present price of American wheat; and,

"Whereas, The alternative is presented either of retiring American-made flour from the European market or the admission of a moiety of Canadian wheat with the benefit of drawback;

"Therefore," etc.

I think those who oppose the allowance of drawback lose sight of the two easily demonstrated propositions laid down in the preambles I have submitted. I am a Republican. I believe in the protective tariff with all my heart. I even plead guilty to the charge of being in favor of a high protective tariff. I believe the farmers are the largest beneficiaries of the protective tariff. I believe that the farmer affords the best possible market for the American manufacturer, and that the manufacturer through the artisans employed affords the best possible market for the American farmer. I therefore believe in protecting both the farmer and the manufacturer within the American market, and in affording every possible encouragement to the exportation of American manufactured goods.

I would be glad to see so many Americans employed in manufacturing for the European market as to consume the entire product of the American

farm. To this end I would give every possible encouragement to the exportation of American manufactures. I know that \$100,000,000 of exported manufactures are dependent upon the drawback which the Legislature of Minnesota declared to be contrary to the spirit of a protective tariff.

All men who study the question know that more than one half the cost of manufactured goods is labor, and that the American farmer, directly and indirectly, gets more than fifty per cent of the aggregate wage paid to the American artisan. I therefore know that \$25,000,000 per annum reach the pockets of the American farmer because of the drawback which the legislature of a great agricultural State declares to be contrary to the spirit of a protective tariff. I was in no manner responsible for the Griggs opinion, followed by Attorney-General Moody, but I was compelled to administer the affairs of the Treasury Department in harmony with those opinions. But, while in no manner responsible for them, I thoroughly believe they were correct in law and with the intent of the author of the provision, and I also believe the provision wise and statesman-like. If I could have my way, the drawback provision would be extended to the end that American manufactures might be exported in yet larger amount. We must find an outlet for our manufactured goods, or our farmers will be in sore distress.

We are the greatest producers of jellies, preserves, and other fruit products in the world. We export some. Under the Dingley tariff the producers

of these products are permitted to import tin, manufacture cans, and on the exportation of the cans recover a drawback equal to ninety-nine per cent of the duty paid on the tin. But the margin is not quite sufficient. If they were permitted to import glass cans and tin cans, then export the same filled with food products—corn, peas, beans, tomatoes, jellies, and preserves—and get a drawback equal to ninety-nine per cent of the duty paid on the cans, it would undoubtedly enable our producers of these products to find a European market for many million dollars' worth from which they are now barred. I recommended in one of my annual reports that this right be granted. I did it no more in the interest of the manufacturer of these products than for the producers of the corn, peas, beans, tomatoes, and fruits consumed.

I ask if the extension of the drawback in this direction would be inimical to the interests of the American farmer or out of harmony with the spirit of the protective tariff? I still insist that the American producer of tin and glass shall have protection within the American market, but when it comes to exporting I favor giving the producer of food products, the grower, and the manufacturer every possible encouragement and every possible advantage. I am contending for a great principle which will extend our export trade and yet preserve to the American producer complete protection within the American market.

Am I not right in everything except when that principle affects wheat? Of course the producers of glass cans will think I am right except when that

principle affects glass cans. My answer to the glass-can manufacturer is this: If the price of American-made cans is a complete bar to the exportation of American preserves and jellies, then he is not prejudiced if foreign cans are admitted in the interest of that industry. My answer to the wheat producer is this: If the price of American wheat is a complete bar to the exportation of American flour, then he is not prejudiced by the importation of cheaper wheat from Canada for the purpose of producing flour solely for export.

This question attracted attention in Canada, and the Canadian Parliament threatened to put an export duty on wheat when exported for the purpose of being ground for exportation to any other country. Canada based this on assertions made on the floor of Parliament to the effect that the American drawback law seeks to build the American milling industry to the prejudice of their Canadian competitors. They favor the grinding of the wheat at home and the saving of the by-products. They lay great stress upon the fact that they will lose these by-products, which would be of such advantage to their dairy interests. They say this, notwithstanding the fact that Canada is a great producer of barley, rye, oats, and other cereals admirably adapted for dairy use.

I was greatly pleased that this discussion took such a wide range, and became in a sense international. The original enactment in the McKinley Bill attracted no attention. Its repetition in the Dingley Bill attracted no attention. The Olney opinion at-

tracted no attention. The Griggs opinion attracted no attention. Fifty times in public addresses I called attention to the fact that the drawback provision of the McKinley and Dingley law was a complete answer to the Democratic argument that free raw material would enable the American producer to successfully compete in foreign markets, but I never succeeded in attracting attention.

Suddenly an opinion of then Attorney-General Moody, in absolute accord with that of his predecessor, Mr. Griggs, attracted international attention. Widespread discussion has aided the American people in reaching a correct conclusion.

If the drawback is contrary to the spirit of the protective tariff let it be repealed, but let its repeal be general and cut off the \$100,000,000 or \$200,000,000 of exportations now dependent upon it. If the drawback be in harmony, and an appropriate adjunct of the protective tariff, as believed by Mr. McKinley and Mr. Dingley, then let its scope be enlarged to the end that we may export yet more abundantly and thereby increase the army of artisans fed from your farm and mine.

ANSWERS NORTH DAKOTA LEGISLATURE

In January, 1905, the General Assembly of North Dakota passed a resolution expressing the
Drawback opinion that the granting of drawback on
in Wheat. flour manufactured in part from Canadian wheat would nullify the tariff on wheat provided in the Dingley Tariff Law.

On receipt of a copy of the resolution, Secretary Shaw replied as follows:

TREASURY DEPARTMENT, WASHINGTON, D. C.,
January 23, 1905.

GENTLEMEN: I am in receipt of a concurrent resolution introduced and passed in the North Dakota Legislature relative to the application of certain millers for a drawback on wheat produced in part from Canadian and in part from American wheat.

Section 15 of the Dingley Tariff Act relates to manufactures in bond. Material used in bonded factories pays no duty whatever, and the question of drawback does not apply. Section 30 of the Dingley Tariff Act unequivocally permits a drawback on the exportation of articles produced wholly from imported material. This, of course, applies to flour as well as to other manufactures.

Thus far there is no conflict of opinion. The only ambiguity is in reference to a drawback on the exportation of articles produced in part from imported and in part from domestic material when the amount of imported material does not so appear to the eye in the completed article that the quantity or measure thereof can be ascertained. You will see that it is important to understand the issue involved in order to comprehend either the argument in support of the request or the effect of granting the same.

It is conceded, of course, that the amount of imported wheat used in the manufacture of a barrel of

flour does not appear to the eye. In an analogous case Attorney-General Olney held that the amount or quantity of imported material used must appear to the eye in the completed article to entitle it to a drawback. This opinion was overruled, however, by Attorney-General Griggs, who, in an identical case, held that if the amount of imported material was ascertainable in any other way than by the exercise of the sense of sight, the drawback could be allowed. In his opinion the requirement was met if the amount of imported material used was made to appear to the knowledge and understanding of the person charged with the responsibility of deciding.

This opinion, I repeat, overruled the opinion of Attorney-General Olney, and is as binding upon the

Attorney- General's Opinion.	Secretary of the Treasury as though the Olney opinion had never been rendered.
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It does not leave the Secretary of the Treasury in the position of having two opinions with a discretion as to which one he shall follow.

But an antagonistic opinion having been rendered, and there being some opposition to the request, I have taken occasion again to submit the question to the attorney-general. I doubt not your body will approve this course. The Treasury Department, in the execution of the law, is controlled by the opinion of the attorney-general, and his opinion is the department's court of last resort.

Having explained what has been done, I would be authorized to dismiss the subject, but I notice in the resolution the expressed opinion that "the grant-

ing of the application will practically nullify paragraph 234 of the Dingley law." Evidently Mr. Dingley was not of this opinion, for the two provisions are in the same bill. But if you are correct, and if section 30 nullifies any portion of the act of which it is a part, then the remedy is with the Congress and not with the administrative branch of the Government.

The provisions of law under consideration first appear in the McKinley Tariff Act of 1890. In his speech explaining what was intended, The Question in Congress. after referring to the right of drawback previously granted on articles produced wholly of foreign material, Mr. McKinley used this language:

"We have extended this provision and in every way possible liberalized it so that the domestic and foreign product can be combined and still allow the exporter ninety-nine per cent upon the duty he pays upon his foreign material intended for export, which is in effect what free traders and our political opponents are clamoring for, namely, free raw material for the foreign trade."

During the speech Mr. Springer interrupted: "Will the gentleman permit me to ask if that applies also to wool?" To this Mr. McKinley answered, "Yes, it applies to anything they choose to import for purposes of manufacture."

It therefore occurs to me that possibly you may have slightly misunderstood the intent of the Dingley

Tariff Act and the preceding McKinley Tariff Act. Tariff schedules were enacted for the purpose of protecting the American producer within the American market, and sections 15 and 30 of the same law were enacted to aid the American producer in his efforts to successfully compete in foreign markets. You will readily understand that Congress cannot protect the American producer in foreign markets, however it might try. Taking this view of the case, you will recognize that the two provisions—protection for the encouragement of American producers for the American market, and drawbacks for the encouragement of American exporters—are consistent.

If I understand the Dingley law correctly it in effect says to the American producer, artisan, and farmer, You shall have protection within the American market. Whoever invades the American market must pay duty upon the articles with which he makes invasion. But the same law says to the American exporter, If you will employ American labor and pay American wages, you shall have every possible advantage in your effort to reach foreign markets. You shall have free iron, free lead, free wool, free hides, free wheat, free everything except labor. Neither foreign contract nor coolie labor must be admitted for employment even in the manufacture of goods for export. American wages must be paid so that the American laborer shall be able to put a roof over his family, unpatched clothes upon his children, and have meat upon his table at least once each day. If I am correct, the Dingley law is consistent with

itself, and does no violence to the principle of protection to and the encouragement of American industries.

From what I have already said it will appear that the real issue involved is quite unimportant. The American manufacturer of flour has the unquestioned right to grind imported wheat in bond, export his product, and pay no duty. He also has the unquestioned right to grind Canadian wheat out of bond, and, if he export all his product, get a drawback equal to ninety-nine per cent of the duty he has paid. He also has the unquestioned right to export a portion of his product, and get a proportionate share of the ninety-nine per cent of the duty he has paid, based upon the relative market value of the portion exported and the portion entering the American market for consumption. This has been passed upon and upheld by the Supreme Court of the United States.

Worked out in an actual example, we have this proposition. The American miller can import, say, four bushels of wheat, paying \$1 duty thereon, and when he exports a barrel of flour, the product of this wheat, get in drawback such portion of ninety-nine cents as the market value of the barrel of flour bears to the market value of the entire product of the imported wheat. The question submitted to the attorney-general is whether the American miller can import two bushels of Canadian wheat, paying fifty cents in duty, blend this with two bushels of American wheat, export a barrel of flour, and recover any

portion of the duty he has paid. It has from the beginning seemed a little strange to me that there should be so much objection to the consumption of a moiety of American wheat.

Believing the question has not been fairly presented to your body, I have taken the liberty of replying somewhat in détail to your very courteous resolution. I have carefully avoided the legal questions involved. My aim has been rather to invite careful investigation of all phases of the question than to support a conclusion.

Yours very truly,
L. M. SHAW,
Secretary of the Treasury.

XX

FREE PORTS

RECENTLY I suggested the adoption of the German economic policy of free ports. The reception given this suggestion is somewhat amusing. Some have declared it novel, some impractical, two or three have used the term "fantastic," while others have truthfully stated that there is nothing new in the proposition, and in proof thereof have cited Germany's experience. Others still have indorsed the suggestion as a great and wise conception.

No one objects to a bonded tannery into which South American hides can be taken free of duty, provided the leather produced therefrom is exported. No one objects to a bonded shoe factory for the consumption of imported leather, provided the shoes produced therefrom are exported. No one objects to a bonded mill for the consumption of cheap Canadian wheat, provided the flour and all by-products are exported. No one would object if a macaroni mill were bonded in which free Canadian flour should be consumed, provided the macaroni produced therefrom was exported. No one objects to the refund, under the present drawback law, of the

duty paid whenever the output of open factories produced from imported material is exported. Manifestly, these laws permit the sale of American-made products from imported materials to be exported at a lower price than prevails in the United States. That is the intention of the law.

It was the purpose of the legislator and it is the object of the law to foster the export trade.

Law Intended to Foster Export Trade. But when the feasibility of including a tannery, a shoe shop, a flour mill, and a macaroni factory under a single bond is suggested in imitation of Germany, economic writers hold up their hands in horror and amazement and rack their imagination to find grounds for condemnation.

Some have gone to the extent of saying it would be unconstitutional to include two concerns under a single bond, though the constitutionality of a bonded single factory has never been questioned. Such a law, of course, would have to be general, and applicable only on certain conditions. The bonded territory would have to be inclosed and prepared at private expense. The Government would bond then, as it does now, when conditions were complied with.

Long articles have been written to show that the plan is less desirable than the present policy of bonding single factories and of allowing drawbacks. No one to my knowledge ever recommended bonded ports as a substitute for bonded factories. I suggested them as an extension of the present policy. If the present policy is reasonable and beneficial, both

of which qualities are conceded, let it be continued; meanwhile the enlargement and extension of this policy is certainly worthy of serious consideration.

The plan has been criticised by some as an encroachment upon our protective policy, and by others as carrying the protective policy Its Effect on the Tariff. to the extreme. The question does not touch the protective principle at all. The protective principle promises the American producer, artisan, and farmer protection within the American market. You say you have been a lifelong Republican. So have I, but I think neither of us has ever taught the American voter to expect protection in the European market. Pardon me if I attempt to express to you my understanding of the protective principle. It is this: Every American producer, whatever his product, shall have protection within the American market from open competition with similar merchandise produced abroad. The drawback law, which is in absolute harmony with the protective principle, recognizing the futility of any attempt to protect the American producer in the foreign market, promises the exporter the cheapest possible material and every other advantage, except contract or coolie labor. In other words, it says to the American exporter: "You need not use American-produced raw material or duty-paid foreign material if you will combine American labor with the free raw material and then find a foreign market for both the material and the labor."

Astonishment also has been expressed that an avowed disciple of protection should seek to encour-

age the export trade. Though a strong protectionist myself, I concede there is much force in free-trade arguments. Undoubtedly, the American people in the swing of years would be prosperous were this a free-trade country. Whether they would be as prosperous as under protection is a question to be discussed elsewhere.

Free trade and protection are at constant war with each other and will not harmonize. If New England is to have protection for her manufactures, then I insist that Florida shall have protection for her citrus fruits, Louisiana for her sugar, Texas for her cattle, Montana for her wool, and Dakota for her wheat. If New England is to have free trade in the things she consumes, then let her concede free trade in the things she produces. Protection in spots and free trade in spots is the most vicious political heresy known to man, and resolves all economic legislation into a squabble for local advantage. We have had more than one experience with this kind of legislation, and we ought not to invite a repetition.

The only road to prosperity is to adopt a policy applicable alike to all portions of our common country, and then maintain it as applied to every industry in which our people are engaged except where it is found necessary to protect natural resources. Whenever it is found desirable, for instance, to attempt the restoration of our forests, it seems to me no longer appropriate to protect the industry of depleting forests. I will not discuss the difficulties that necessarily arise when it is

Limits of
Protection.

attempted to incorporate this thought into statute law. Logs are now on the free list. Doubtless, furniture will always be protected. The determination of the point at which protection shall be applied will always be difficult.

What is raw material? Trees growing in a virgin forest on which no taxes have been paid constitute raw material. Ore in an undiscovered and unowned deposit is raw material. Raw Material.

But trees felled by the hand of man, ore at the mouth of the mine, coal broken from the vein, wheat, cotton, wool, and other agricultural products are not raw material. They are the finished products of the woodman, the miner, and the farmer. I recognize that the hide of the steer is not the item of greatest value. Neither is wheat the item of greatest value in the product of a Georgia farm. Yet neither wheat nor hides are raw material.

The American producer of shoes has no right to complain of the price of leather. Only the consumer of shoes has a right to be heard on that subject. If the Government of the United States were to furnish material for the shoe factory gratis and at public expense, competition would be as brisk in five years as it is now, and profits would be reduced quite as low, and, in my judgment, lower. The manufacturer of shoes for export is seriously affected, not only by the price of material but by the price of labor. Because of this and for the purpose of enabling him to enjoy American labor at the American scale of wages, bonded factories for the consumption of free

imported material are authorized, and the refund of duty actually paid on imported material consumed in any factory is authorized whenever the product is exported, and as an enlargement of the same policy free ports or bonded ports are suggested.

Suppose we bond a well-defined section of land containing, if you please, several thousand acres. Within this bonded territory all kinds of factories could be built, and into this zone all kinds of raw material could be entered without the payment of duty. These ports should, of course, contain no dwellings. I would allow free coal and every other element of manufacture except labor to be entered free. In other words, these free ports should be great consumers of American labor, the product of which, under the most encouraging conditions, should be for export and for export only. If they were removed from the ports for domestic consumption, they should pay the same duty as if imported from abroad. I do not see wherein the American people could be harmed by such a policy, and it would result in furnishing employment to those who choose to live beneath our flag, consume our products, and work at the American scale of wages.

All New England would be benefited by such a port somewhere on the North Atlantic coast. A

Suggested	similar port should be established in the
Location of	vicinity of Norfolk and another on the
Free Ports.	Gulf. It will take time to develop the

thought, but it is in absolute harmony with the present bonded warehouse, bonded factory, and drawback

policy, and we have a good and successful example in the free ports of Germany.

The objection most frequently raised and most persistently urged against the drawback, the bonded factory, and the bonded port is that they permit the American producer to sell abroad cheaper than at home. If there be an article produced in Europe which is not regularly sold for export to America cheaper than it is sold in the country of its origin, the Treasury Department has not discovered it.

Objections
Considered.

I have the extended stenographic notes of an argument made before the Board of General Appraisers by the best customs lawyer in America, in which he flatly admits that his clients buy below the price prevailing for home consumption, and in which he animadverts most vigorously against the provision of our law which directs that ad valorem duties shall be assessed upon the price at which the article is ordinarily sold in ordinary quantities in the country of production. He thinks this law most vicious, and the reason he thinks it vicious is that it protects the American producer against the policy of dumping which prevails everywhere.

Every country in Europe sanctions selling goods abroad cheaper than at home, and the practice prevails everywhere. Manufacturers in Europe have agreements both with respect to the domestic price and with respect to the export price, and their agreements are sometimes in writing. These prices are

Foreign
Countries
Practice
Dumping.

not infrequently determined by resolution, regularly passed and freely published.

I quote from this customs lawyer's argument where, in referring to foreign producers of (in this instance) china, he says:

"If it be true that these people have within a comparatively brief period raised or ordered increases from five to fifteen per cent, there is no knowing where they will stop. They may make it twenty or thirty; they may make it forty; and whenever they choose to issue an order of that kind as to their home trade, which they have at their mercy and which is bound to pay whatever price they choose to impose, then all buyers of china and earthenware in the United States are to have the cost of the articles they buy and import increased to them."

In the course of his argument the president of the Board of General Appraisers propounded to him this question:

"Having found the wholesale domestic market price, do you think we can go back of that and inquire what makes the price such, whether it be the result of a combination or whether it be the result of actual value?"

Of course our customs lawyer thought they could, notwithstanding the statute; for farther on he says:

“Where these foreign manufacturers have made a union, and that union registers edicts that the price go up five per cent on the 1st of March and five per cent more on the 1st of April and five per cent more on the 1st of May, it is not the business of the American Government to appraise goods on any such decree.”

I make these citations to illustrate a plan, a method of business, a mercantile policy against which no foreign government raises an objection, but which directly affects the American manufacturer. Of all the people of earth, we, who have the least reason to object, and, because of the prevailing higher scale of wages, have more reason to encourage, are the only people to protest against placing the product of their labor in foreign markets at reduced prices.

The effect of the law against which our customs-lawyer friend discourses is to increase the duty in proportion as the foreign producer increases his domestic price for the purpose of enabling himself to sell relatively cheaper abroad. Suppose an article can be produced and sold in Europe for \$1 on which our tariff is fifty per cent. It can then be sold in the United States for \$1.50. If the domestic price be raised to \$1.10 and the export price reduced to ninety cents, the duty levied on the domestic price will be fifty-five cents, and the article can then be sold in the United States for \$1.45. Thus, though a difference be made of twenty per cent between the domestic

price and the export price, the increase in the ad valorem duty counteracts all but five cents.

I do not know to what extent our people sell abroad cheaper than at home. I am not among those who seriously object to the policy. If other countries would forbid it, I would be willing that Congress should follow their example; but so long as our people must compete against what political economists call the German-English policy of dumping, I am willing that we should pursue the same course and likewise dump.

I do not think, however, that the practice prevails in this country to any considerable extent except in goods produced in bond or on which a drawback has been allowed.

—AT SPRINGFIELD, MASS., 1907.

XXI

DUMPING

OUR political opponents lay much stress on the fact that some American manufactures are sold abroad cheaper than at home. That the practice prevails to some extent all must admit, but that it does not prevail generally or to any considerable extent is easily established. A non-partisan industrial commission was appointed by Congress in 1898, which, after spending more than three years in the investigation, filed its report in 1902, which was published in eighteen large volumes.

This report contains all available evidence on this subject. After making careful compilations from the data therein contained, Senator Gallinger, of New Hampshire, stated on the floor of the United States Senate in April, 1904, that approximately \$4,000,000 worth of American manufactured products are annually sold abroad cheaper than in our own domestic market. No one has ever attempted to disprove Senator Gallinger's conclusions, though our political opponents continue to speak of the practice as well-nigh universal. This \$4,000,000 worth can be far

more than accounted for by the advantage given to exporters under our drawback laws, and it is quite likely the estimate is too low.

The Dingley Tariff Law provides two ways by which exporters may avail themselves of this advantageous privilege. First, the law authorizes the manufacture of merchandise for export in bonded factories and permits to be transferred thereto not only imported ores, iron, and steel billets, and other material free of duty, but also spirits and tobacco free of internal revenue tax. During the last fiscal year approximately \$10,000,000 worth of imported ores for smelting, material for manufacture, and distilled spirits and tobacco were thus used, and the entire product exported and no duty or internal revenue paid thereon. Had this material been entered for consumption in this country, the duty and internal revenue tax would have been quite a large amount; and, to the extent of this saving in the cost of the finished product, the smelter and manufacturer could reduce his export price and still make the same profit.

Under the American scale of wages the value of ordinary American manufactures is about equally divided between material and labor. The conversion into finished products, therefore, of \$10,000,000 worth of raw material consumed in bonded factories would justify the sale abroad of twice that amount of refined or manufactured products cheaper than at home. I should not be surprised to learn that most of the output of these bonded smelteries and fac-

tories is sold abroad below the price prevailing in the United States.

The other method provided in the Dingley Law for allowing manufacturers who export their products the advantage of cheap material authorizes the Secretary of the Treasury to pay back to the exporter of manufactured merchandise ninety-nine per cent of the duty which he has actually paid upon any imported material consumed therein. During the last fiscal year there was refunded to exporters of manufactures produced in whole or in part from imported dutiable material approximately \$6,000,000. The refund of duty averages about five per cent of the value of the exported merchandise.

The Advantage of Cheap Material.

This drawback provision, therefore, justifies the sale abroad of \$120,000,000 worth of American-manufactured merchandise five per cent below the domestic price of similar articles. Both these provisions of the Dingley Tariff Law were enacted for the avowed and sole purpose of enabling the American employer of labor to put his product on the foreign market at reduced prices. In this way only is he able successfully to compete with rivals who always have the benefit of cheap labor and frequently of non-dutiable and untaxed material.

Opens Foreign Market to American Factories.

The articles on which drawbacks are allowed are numerous and varied. Last year drawbacks were allowed on eighteen articles in which dutiable iron or steel was consumed, nine articles in which dutiable

imported lead ore or lead bullion was incorporated, three articles in which dutiable tinplate formed a part, nine articles in which dutiable sugar or molasses was used, twelve different articles in which imported dutiable alcohol was used, several in which imported dutiable hides or leather was used, and no end of articles in which dutiable imported wool was used. Drawbacks were allowed on over one hundred and thirty manufactured articles, in the production of which fifty different kinds of dutiable imported materials were consumed.

The policy of allowing drawbacks upon the exportation of manufactures into which dutiable raw material has entered is in strict harmony with the principle of protection. The protective principle avowedly and in fact gives the American producer an advantage within the American market, but no economic policy can give the American producer an advantage over his foreign competitor in the foreign market.

The Republican Party from the time of its birth until now has protected the laborer who produces Cheap Labor a Menace to America. for the American market in every way possible for man to conceive. Republican legislation excludes Chinese labor primarily because the Chinaman refuses to live on the American standard. The coolie laborer is unpopular, largely because of his inexpensive habits. He neither feeds himself, clothes himself, nor houses his family as do Americans. Living on a lower plane, he can, of course, afford to work cheaper than Americans,

and his presence is a menace not so much to American morals as to American labor. To the extent that he secures his pro rata share of American wages and fails to contribute proportionately to the consumptive capacity of the country, his presence is undesirable. The Republican Party, therefore, says to him: "Unless you consent to be an American consumer, you shall not be an American producer. You must be an American in both respects or you cannot enter American territory."

Republican laws against imported contract labor are of the same class. But for these laws manufacturers would go abroad, hire laborers at the European scale of wages, and bring them to this country under contract to work below the American scale. This was once the practice to the prejudice not only of labor, but to the prejudice of the American farmer as well. Low wages compel poor living, and poor living harms the farmer and the manufacturer also, for it restricts the consumptive capacity of the country.

Republican
Laws vs. Con-
tract Labor.

The Republican Party gives the American manufacturer for the foreign market, however, every possible advantage except that of cheap labor. No law can protect the American producer in the foreign market, hence the exporter of the product of American labor is given the cheapest possible raw material. If it be said that this is to the advantage of the exporter, I reply that it aids quite as much those whom the exporter employs, while those who supply

the ordinary needs of these employed artisans are benefited also.

Perhaps I can make the drawback principle clearer by means of an illustration. The American producer of steel billets has a minimum protection of \$6.72 per ton. The producer of spikes and bolts has a protection of \$13.44 and \$33.60 per ton respectively. The American Iron and Steel Manufacturing Company, of Lebanon, Pa., was paid last year in round numbers \$10,000 drawback on the exportation of \$75,000 worth of railway spikes and bolts produced from imported steel billets. In effect the Government said to this concern: If you will consume \$35,000 worth of American labor in the manufacture of \$75,000 worth of spikes and bolts, there will be paid back to you as soon as you export your product \$10,000 of the duty which you pay on the billets consumed. This drawback enabled this concern to sell \$75,000 worth of spikes and bolts abroad for \$65,000, and make the same profit as if sold at home for \$75,000. It being impossible to protect the American producer of spikes and bolts in the foreign markets, the law authorizes this refund to him on proof of exportation, with manifest intent that he shall sell his product abroad that much below the American market price.

In some localities there is a demand for the admission of hides free of duty, and the principal reason assigned is that it will enable the manufacturers of leather goods to export more of their products. Drawbacks were allowed during the last year, how-

ever, on large amounts of exported leather produced from dutiable imported hides, and on shoes and belting produced from dutiable imported leather. One concern in Boston received \$16,000 in drawbacks on the exportation of sole leather produced from imported hides. Presumably this sole leather was sold abroad cheaper than at home. It could have been. There was \$16,000 difference in its cost and the cost of a like amount of sole leather consumed at home.

We exported during the last fiscal year approximately \$570,000,000 of manufactured products exclusive of prepared and partially prepared foods. Of this total probably \$20,000,000 was produced in bonded smelteries and factories, and no duty was collected upon the material consumed. On approximately \$120,000,000 a drawback of about five per cent was recovered. Thus it will be seen that nearly twenty-five per cent of our exported manufactures leave this country costing the exporter less than corresponding articles which he places on the American market.

Very frequently the drawback thus allowed, though small, has made possible the exportation of American products. To what extent our export trade in manufactures is dependent on this wise provision of law under which American labor while working generally for Americans is enabled to perform some service for other countries, no one can tell. I am convinced that much more can be accomplished along this line by liberalizing our drawback laws.

Suppose Senator Gallinger's estimate to be correct, that \$4,000,000 of American manufactures is annually sold abroad at prices lower than prevail in this country. What does it prove? We manufacture about \$12,000,000,000 per annum, exclusive of prepared foods, of which \$4,000,000 is but one third of one per cent. If Senator Gallinger's estimate is correct, then for every \$1,000 worth of output from our shops and factories, about thirty cents' worth is sold abroad cheaper than at home. The manufacture of \$1,000 worth of finished products necessitates the outlay of \$500 in wages. The proposition therefore may be stated as follows: For every \$500 paid in wages by our shops and factories, thirty cents' worth of the resulting products are disposed of in foreign markets at reduced prices.

The report of the Industrial Commission shows that some of these articles are protected in this country by patents and are not so protected in the foreign markets. If the supposed evil as applied to patented articles is worthy of drastic remedial measures, the most feasible would be the repeal of our patent laws.

Of our manufactures, exclusive of prepared and partly prepared foods, we export but a small fraction above five per cent. In other words, of every \$1,000 in finished products at the door of our shops and factories, the production of which has consumed \$500 worth of labor, practically \$52 worth is sold abroad, and of this \$52 actually exported a little

over thirty cents' worth is sold below the American market.

The practice complained of is not confined to America, nor is it limited to countries where the protective principle prevails. Every government of Europe approves it and all save one encourage it. George Paish, editor of the *London Statist*, perhaps the largest economic journal published in the English language, was my guest at DeWitt, Iowa, during the campaign of 1904. I introduced him to my audience and he sat upon my platform. During the discussion of this subject I made the statement that every foreign government except England encourages the sale of manufactured products abroad cheaper than at home, and added that I was not certain as to the English policy and asked Mr. Paish for information. Promptly did he reply: "England does not encourage it, but our people practice it." The practice is frequently referred to by writers on political economy as the English-German policy.

The Practice
of Dumping
Approved
Throughout
Europe.

Special agents of the Treasury Department throughout Europe occasionally pick up two catalogues published by the same house, one marked "export" and the other "domestic." These catalogues will be identical in every respect except price, and the price for export will be from five to twenty-five per cent lower than for the domestic market. They frequently find discount sheets applicable to the same catalogues, but regu-

Double
Catalogues.

larly offering to sell for export to the United States materially lower than at home.

I quote from an original letter from a manufacturer in Switzerland, the heading to which locates its offices and show rooms in London also. It was written and is addressed to a well-known firm in New York City and reads as follows:

“Replying to your favor 9th March, we beg to state and confirm that our European market price is 85 pfg. subject to ten per cent and three per cent discount. There are no differences between the different States, except such as are necessitated by the customs duties of every country (for instance, Germany 0.85, France 1.10).

“We have given you the following discounts on our regular price of 85 pfg.: 10% + 3% + 5% + 10%, which we confirm herewith.”

Thus, this Swiss manufacturer openly offers his product to America approximately fifteen per cent lower than in the country of production.

The law requires merchandise to be entered at the foreign market value and ad valorem duties are levied thereon. The importer has the right, of course, to buy abroad as cheaply as possible, but he must pay duty on the full foreign value. All importers are required to file their original invoices, and when they buy below the regular foreign market value they must add to this invoice an amount equal to the difference. This is technically

Admitted by
Importers.

known as "adding to make market value." When the importer fails to add to make market value his duties are increased to the extent of his undervaluation. During the fiscal year 1906, at the port of New York alone, upward of 17,000 invoices covering more than \$27,000,000 worth of merchandise were filed, and thereon the importer made voluntary advances aggregating over a million and a half. This is proof positive that there was sold for exportation to this country during that year \$27,000,000 worth of merchandise at an average of seven per cent below the price at which it could have been purchased for consumption in the country of production.

England is a free-trade country, and yet English merchandise is freely and openly sold every day in the calendar year for exportation to America cheaper than for home consumption. Some time ago the English china manufacturers (in American parlance, the English china trust) arranged among themselves to sell their products for exportation to the United States fifteen per cent below the regular English market. The Treasury Department—learning of this, for it was no secret—advanced their wares accordingly, and a test case was tried at Baltimore before a Democratic member of the Board of General Appraisers, Mr. McClelland. The sole issue at the trial was to ascertain the regular market price of this imported china in the English market. Mr. McClelland told me that there were filed with him at the trial a large number of affidavits from English manufacturers stating

specifically that the invoiced price was the regular price at which the affiant would be willing to sell to anyone for export to the United States. They could not say it was the price at which they would sell to anyone for consumption in England.

So general has this practice become that a large number of New York importers appeared before the Ways and Means Committee at the recent session of Congress to urge an amendment to the customs administrative law, under which it was proposed to levy and collect ad valorem duties, not as now on the market price in the country whence exported, but on the price at which the producer might be willing to sell for export to the United States. These importers know better than others that the price of nearly every kind of merchandise is from five to twenty-five per cent cheaper when sold for export to the United States than when sold for local consumption; and they sought in this indirect way to effect a material reduction in our tariffs.

The Treasury Department has many confidential agents in Europe, and the secretary meets a large number of people, many of them importers, who annually go to Europe on business. Through these two sources I sought to find what, if any, articles of American production can be purchased abroad cheaper than at home, and incidentally have accumulated abundant evidence to disprove the claim of our opponents that the practice of dumping, as it is called throughout Europe, is general. I received a letter from a busi-

Many Ameri-
can Articles
Dearer Abroad.

ness man of New Jersey on the subject. He said he recently purchased at Trenton, N. J., an American mower for \$36. This, he stated, was the price at which anyone could buy, spot cash. He found the identical make and pattern for sale in England at £10 (\$48.40 our money), and in France for 275 francs, or \$55. He found American revolvers, which regularly sell in New York at \$10.50, for sale in Paris at the equivalent of \$15. He found an American shoe advertised in every town in the United States for \$3.50 per pair, also popular in London, the metropolis of a free-trade country, at the equivalent of \$4 per pair, and in Paris at the equivalent of \$4.25 per pair. An identical American shoe, which sells in New York at \$4.50, is sold in London at \$5.25. My friend said he found an American sewing machine at a cheaper price in Europe than America, but he added that it was a machine made at the company's German factory, and of a much rougher finish and inferior in every way.

But what shall be said of this practice as a policy? Is the practice bad *per se*? Who suffers because of it? Does the American laborer? Go American ask the man who produces these ex- Labor Satisfied. ported wares, thus dumped abroad. I have been criticised for saying that I would prefer to have the American manufacturer sell his products cheaper abroad than at home rather than have the foreign producer sell his wares in America cheaper than at home. This is the same as saying that I would prefer to have the products of our factories close for-

eign shops, rather than have the products of foreign shops close our factories.

I wish all the world well, but if anyone has to be out of employment, if there must be suffering somewhere, then I will use my best efforts that it come not nigh my country. If, to accomplish this, it shall be necessary that I pay more for my clothes, more for my shoes, more for my sewing machine, more for my typewriter, more for the barbed wire used on my Iowa farm, than is paid for the same articles in Europe, then I will not object, so long as the products of American farms feed, and the products of American looms clothe, and the products of American labor generally supply every need of those who produce these things thus sold abroad at reduced prices. I will consent to pay a little more than otherwise would be necessary to the end that the products of American labor shall be put on foreign markets.

—AT SALISBURY, N. C., 1906.

PART IV
RECIPROCITY

XXII

RECIPROCITY GENERALLY

A COMPARISON of our commercial attitude toward other countries with that of other countries toward us and toward each other may not be out of place.

Barring a few excluded articles, like domestic animals for domestic use, England gives her people no advantage whatever over their foreign competitors. While she collects more customs duties per capita than the United States, she so adjusts her tariff schedules as to afford her people no suggestion of protection. She levies heavy tariff duties on beer, for instance, but balances it with an internal revenue tax upon the domestic article so that each goes to the consumer taxed exactly the same.

Making no discriminations between foreign competitors and her own people, it is impossible for her to make discrimination as between foreign countries. She opens wide her doors and admits the products of all countries on equal terms with the products of her own people, and on equal terms with each other.

Germany and France pursue the protective policy. These countries give their own producers, artisans,

and farmers an advantage within the domestic market over any and all foreign competitors, and as between these competitors make marked discriminations. Each grants concessions in consideration of similar favors extended and received through commercial agreements containing what is known as "most favored nation" clauses.

The United States follows the example of Germany and France in granting protection to domestic producers, and she follows the example of England in extending no special privileges to the products of any foreign country. Barring our concessions to Cuba and the slight reduction on the product of wineries, such as argols, crude tartar, wine lees, etc., the United States treats the people of all countries and the products of all people alike.

One of the questions which we must soon decide is whether the United States will continue a one-price purchaser, or whether she will grant special privileges to some and impose corresponding burdens upon others.

There are four possible policies for the United States, and there are only four.

First, she can, as our Democratic friends advise, adopt the policy of Great Britain and levy tariff duties for revenue only and grant to our own people no advantage whatever, and make no distinction between the products of foreign countries.

Four Policies
Open for
Adoption.

Second, she can follow her present policy and

protect her own people, and still make no distinction between the products of foreign countries.

Third, she can grant concessions to those countries which discriminate against her, and impose special hardships against those who treat her the same as they treat others.

Fourth, she can impose maximum duties against those who impose maximum duties against her.

It is important that we keep these distinctions clearly in mind. The United States can continue a one-priced purchaser, or she can change her policy and make discriminations. That is plain. If she makes no discriminations between foreign countries, she can proceed upon the English free-trade principle or upon the American protective principle. That is, she can treat her own people and the outside world alike, as England does, or she can give her own people the advantage of protection and still treat all the outside world alike.

If she shall grant discriminations, she also has an alternative. She can show special favors to those who discriminate against our people and enforce maximum duties against those who do not discriminate against us, or she can discriminate against those who discriminate against us, and treat all those alike who treat us as they treat others.

We are asked to reduce our tariff for those countries that increase theirs, and let those that take our goods in greatest quantities pay the full rate. We

have not done that yet, and I am going to register a guess that we never shall.

It will be borne in mind that Germany is a protection country, and her tariff laws are much more exclusive than those of the United States. The cost of production in Germany is very little in excess of that in adjacent countries, but her tariff duties exceed this differential far more than the tariff duties of the United States exceed the differential between the cost of production in the United States and in European countries. Thus, Germany not only protects her own people on all competitive articles, but she places maximum duties, in some instances more than one hundred per cent higher, against those countries which refuse to admit her products on more favorable terms than products of most other countries.

Germany's
Protective
Policy.

The Republican Party has several times declared in favor of reciprocity. Theoretically the principle is correct and the term is euphonious. The difficulty in its practical operation lies in the fact that no State has a product which she is willing to sacrifice for the common good; she has nothing she is willing to yield, and would bitterly resent any enforced concessions at her expense.

During the last two administrations several reciprocity treaties have been negotiated, but, barring the one with Cuba, our political offspring, none has been approved. What policy our party will hereafter pursue I am not prepared to say, but I shall not be surprised if it declares in favor of maximum and

minimum tariffs, the minimum tariff to be like the German so-called conventional or minimum tariff, sufficiently high on competitive articles to insure the employment of labor in every branch of industry, and the maximum tariff to apply only to such countries as impose unusual and extraordinary burdens upon us.

We have never demanded, and in my judgment never should ask, better treatment abroad than is accorded to others, but I shall not be surprised if we ultimately insist upon as good as any receive.

Prior to the satisfactory adjustment of the matter with Germany a bill was introduced imposing twenty-five per cent additional duty against the products of all countries that discriminate against the products of the United States. If it be said that this is retaliation, it must be noticed that it is retaliation only against those who initiate discriminations against us, and is not intended to affect, in the slightest degree, any people who are willing to treat us as well as they treat others.

There is no place in the world except the United States where a child can buy at exactly the same price as an adult. Everywhere else bantering and haggling over the price of merchandise of every description, including the necessities of life, is at least a common practice. Representative merchants in the United States are one-price sellers, and I shall not be surprised if our people maintain their present position as one-price buyers except from those who discriminate against our products. I shall not be

surprised, I repeat, if the American people insist that the products of American labor shall be admitted to the markets of all foreign countries on as favorable terms and subject to exactly the same rates of duty as are imposed upon similar products produced elsewhere.

—BEFORE THE CHAMBER OF COMMERCE, CLEVELAND,
OHIO, MAY, 1905.

XXIII

OUR TRADE POLICY

AS there is no disturber of commerce so great as war, so there is no such lover of peace as commerce. In proportion, as a people become interested in financial, industrial, and commercial pursuits do they dread and abhor the devastation incident to martial conflicts. The United States stands pledged to the utmost of its influence to the preservation of the world's peace.

Commerce a
Conservator
of Peace.

It may not be out of place here to define briefly the international commercial policy of the United States. What I shall say in this regard relates to the past and the present, and is in no sense a pledge or prediction as to the future. It would be out of place in this presence either to defend this policy or to recommend its abandonment. I must content myself, therefore, with its naked announcement.

Our Interna-
tional Com-
mercial Policy.

The United States has heretofore and now reserves to itself, by means of protective tariffs, a large measure of the commerce incident to supplying the needs and wants of its 80,000,000 people. That

which it yields to others it yields, with few and unimportant exceptions, to all on equal terms, and gives preferences to no country and to no people. The few carefully guarded exceptions but emphasize the policy, and the slight advantage granted the republic of Cuba but evidences a parent's regard for his offspring, and does not mark the inauguration of a new policy.

The United States offers the product of its soil, of its mines, of its forests, of its fisheries, and of its factories to all the world on equal terms. It grants no export bounty and imposes no export duty. The Constitution of the United States practically insures to all of earth the right to buy in our markets on equal terms with ourselves. Whoever will pay the most gets our goods. As a selling nation, the United States contributes more to the international commerce of the world than any other country on the map, and more than one eighth of the aggregate.

The United States consumes of the products of other countries three millions per day, and thus contributes to international markets one ninth of the grand aggregate. Barring a dozen or so minor articles the United States thus far has granted to the people of all countries the right to sell in our markets on equal terms. Its tariff duties imposed for purposes of protection, as well as those imposed for purposes of revenue, are equal as between those countries which protect their markets against us and those which make their markets free.

I hope it will not be considered out of place to add that the United States is consistent with itself in that it criticises no nation for levying duties, be they ever so high, when levied either for purposes of protection or for purposes of revenue, provided only they are made to rest no more severely upon us than upon others. The United States only asks the right to buy in foreign markets on the same terms as her commercial competitors, and the right to sell in all markets on terms as favorable as any.

For two or three years past certain of our people have expressed fears lest the United States will be involved in tariff wars. I am glad that the record justifies the statement that the United States has never yet levied retaliatory tariffs. I can therefore assure you we will never be involved in tariff wars so long as the product of American labor is admitted to the ports of other countries on as favorable terms as similar merchandise of other origin. What might follow if our people were to be subjected to adverse discriminations I am not prepared to say. We all love peace, and especially commercial peace, but peace purchased at the price of humiliation is dearly bought.

—BEFORE THE INTERNATIONAL COMMISSION OF RAILROAD CONGRESS, WASHINGTON, D. C., MAY, 1905.

XXIV

CANADIAN RECIPROCITY

I AM not unmindful of the necessity, the imperative necessity, of seeking new and enlarged foreign markets for our surplus. But I am more interested in taking care of the market that consumes our ten and one half billions than in the European market, which now furnishes an outlet for one and three-quarter billions. We can keep this home market only by pursuing the policy under which it was created. It would be the height of folly to surrender that which we have by right of creation and by right of possession in the vain hope that our magnanimity will be emulated by other peoples every whit as selfish as ourselves.

Our Democratic friends have a theory of reciprocity peculiarly their own. I read the following in an editorial of a great Republican daily, but it is Democratic doctrine just the same:

“Real reciprocity is mutual concession among nations for international commerce and lowering of prices. The familiar principle of wholesale trade enters into it. . . . It matters not whether these mutual concessions are made by treaties or by independent legislation on

either side. The essence of the thing is that we should make it possible for other nations to buy more of these things which we can produce to the best advantage by buying from them more of the things which they can produce to better advantage than we can."

Note the Cobden Club free-trade idea. Open our doors to the free importation of everything foreign; and then, of course, every foreign door will open to us automatically.

Our Democratic friends quote with avowed approval two sentences from the last speech of the lamented William McKinley: "A system which provides a mutual exchange of commodities is manifestly essential to the continued and healthful growth of our export trade. We must not repose in fancied security that we can forever sell everything and buy little or nothing."

President
McKinley's
Views.

But they omit to quote the second sentence following: "*We should take from our customers as much of their products as we can use without harm to our industries and labor.*"

No one more than Mr. McKinley recognized the importance of our home market, and no one more than he contributed to its creation. He therefore advocated taking from our foreign customers only such of their products as will not harm our industries and labor. He was too wise to intimate that opening our doors to the unrestricted importation of foreign products would result in opening other doors for the

unrestricted reception of our products. In other words, he was a Republican and not a Democrat. He was a protectionist and not a free trader. He was both a logician and a statesman.

He believed, for instance, in buying coffee and rubber from our neighbors on the south, and selling to the people who produce coffee and rubber our manufactured products and our machinery. While he appointed the American members of the Joint High Commission which was authorized by Congress to formulate agreements covering our trade relations with Canada, no syllable that he ever uttered justifies the conclusion that he deemed it wise to open our doors to the free importation of food products from Canada, or that he ever for a moment supposed that Canada would give us an advantage over England in supplying the Canadian people with manufactured products.

I desire to admit that I have not studied the question with sufficient care to justify the conclusion that the United States would be injured by absolute free trade with Canada. I am not prepared to say that the annexation of Canada by the United States, or, as some of our friends express it, the annexation of the United States by Canada, would be to our commercial disadvantage. That question is not at issue.

I am well aware that our Democratic friends are flooding the country with arguments based upon the theory, and will seek to secure votes upon the proposition, that we should have free trade with Canada.

The Canadian Government, however, finds it necessary to levy not only a tariff for revenue, but she finds it advantageous to levy a protective tariff also. She is too wise to follow the example of the nation of which she is a colony. Instead of following the example of Great Britain, which admits Canadian products free, she maintains a protective tariff against England.

The Democratic argument in favor of reciprocity with Canada proceeds upon the theory that Canada will give the United States free access to her markets in manufactured products, and at the same time maintain her protective tariff against England. I repeat I have not given the question sufficient consideration to justify the opinion that this would not be advantageous to the United States if it were possible, but I have given it sufficient consideration to know that it is not possible.

I have also given the question of Canadian reciprocity sufficient consideration to know that it would not be advantageous to the United States to admit Canadian natural products free of duty in consideration of the free admission into Canada of natural products from the United States. In other words, reciprocity with Canada in competitive articles only would be to the advantage of Canada alone, and reciprocity in competitive articles is the only kind of reciprocity which Canada will consider.

If the United States will allow Canadian farmers to bring their dairy products, their poultry products,

their cattle, their horses, their pigs, and their wheat, and the Canadian fishermen their catch, and the Canadian lumbermen their cut, to the New England States, to Buffalo, to Ashtabula, to Minneapolis, and to Chicago free of duty, then Canada will grant the American producer of similar products equal privileges in Canada. I am irrevocably against such a one-sided agreement.

—AT DES MOINES, IOWA, 1904.

XXV

CANADIAN COMPETING PRODUCTS

FOREST H. WOODSIDE, in April, 1905, wrote asking: "What would be the effect upon the American consumer and producer of the abolition of protection upon the mutual trade in competing products between the United States and Canada?" Mr. Shaw replied:

DEAR SIR: Your letter of the 25th instant, asking "What would be the effect upon the American consumer and producer of the abolition of protection upon the mutual trade in competing products between the United States and Canada?" is received.

If I get your thought it is the same as more frequently expressed by "free trade with Canada in natural products." Free trade in coal would close our coal mines in the Puget Sound district as they were closed under the Wilson-Gorman law, when fifteen hundred men were thrown out in one day. Free trade in farm produce would bring millions of dairy products, eggs, poultry, and cereals to the United States and not carry a dollar into Canada. Free trade in fish would be wholly to the advantage of Canada. Free trade in unmanufactured lumber would be, I

think, to our advantage. It seems illogical to make large appropriations to restore our forests and at the same time foster the industry of the lumberman who depletes them. You remember, the Dingley law puts logs on the free list. It may be found advisable also to admit boards, but not manufactures of wood.

The subject is of interest only academically, for Canada does not want reciprocal trade relations in anything but natural products, and the United States will not accept free trade in natural products.

XXVI

THE PROPOSED TARIFF AGREEMENT WITH GERMANY

LETTER TO THE PRESIDENT

WASHINGTON, D. C., September 16, 1905.

DEAR MR. PRESIDENT: Replying to your request for my views on the propriety of a good faith effort to negotiate a reciprocal trade agreement with Germany, I beg to say: The question is far-reaching. The country is catching at straws. Enough seed has been sown to give us a crop dangerous to harvest. Fortunately, the people believe in Theodore Roosevelt, and unfortunately, I think, believe in no one else. There was never greater responsibility resting upon any man than upon you with reference to these economic questions. If it were known that you are attempting to make a trade agreement with Germany, sentiment in favor of reciprocity would know no bounds, and then, if the Senate should refuse to ratify any treaty you might negotiate, the country would seriously resent it, right or wrong. I have never been more

impressed with the ill-advised enthusiasm for reciprocity. The reciprocity convention went wild in favor of a principle, yet dared not suggest an item where it could be applied.

I join with the Senators whom you quote in the belief that negotiations should be confined to the articles named in section 3 of the act of 1897. You have plenary powers within these limits, and Congress will reject the suggestion of a step outside of them. I think it would be wise to offer Germany every benefit possible under section 3, in consideration of her conventional tariff. When we give Germany as good terms as we give any country, Germany should give us as good terms as she grants to any. On that proposition I would stand pat. If you were to say in your message or in a speech that you had refused to make an agreement granting special privileges in our markets unless the country so favored would give the American people as good terms in their markets as they give to any, the American people would applaud to the echo. On the contrary, in my judgment they would condemn the granting of special privileges coupled with the consent that they should be discriminated against:

- I see no room for compromise. If you recommend or take any step looking toward reciprocity, the effect will be the same as though you had technically indorsed the aim and object of the reciprocity Congress. If you take the position that the United States Government shall treat all countries alike and demand fair treatment from each, the country will

accept that as promptly as they will accept the other,
and the whole question will be down and out.

Yours very truly,

THE PRESIDENT,

L. M. SHAW.

OYSTER BAY, N. Y.

GERMANY'S DEMAND FOR A NEW COMMERCIAL
AGREEMENT

In October, 1905, W. R. Boyd, of the Cedar Rapids (Iowa) *Republican*, wrote Secretary Shaw a letter which called forth the following:

DEAR BOYD: Replying to your request for an elucidation of what is involved in Germany's demand for a new trade agreement, I submit the following:

Section 3 of the Tariff Act of 1897 authorizes the President, whenever the government of any country or colony shall enter into a commercial agreement with the United States or make concessions in favor of American products or manufactures, which in the judgment of the President shall be reciprocal and equivalent, to suspend by proclamation the imposition and collection of the duties mentioned in such act on argols, or crude tartar, wine lees, brandies, champagne, and other sparkling wines, vermouth, still wines; paintings, and statuary, and possibly a few other articles, and thereafter the duties collectible upon such articles shall be somewhat less, the limit of reduction being fixed in the act.

The authority of the President to modify rates of duty is thus limited both as to the articles and the per centum of reduction. The exercise of this limited authority, as you will observe, may be predicated either upon a commercial agreement or upon voluntary concessions in favor of American products.

These authorized reductions constitute the "minimum tariff" schedules of the United States, and those countries which secure these concessions are our "most favored nations."

Under the act I have cited, a commercial agreement was entered into between the United States and Germany on July 10, 1900, in which the United States granted to Germany substantially the limit of concessions allowed by law, and in consideration thereof Germany granted to us the minimum rates which had been agreed upon in commercial treaties concluded during the years 1891 to 1894 between Germany and the following countries: Belgium, Italy, Austria, Roumania, Russia, Switzerland, and Servia. In other words, Germany received as favorable terms as can be granted to any country under our statute, and we received as favorable terms from Germany as she had granted to any of the countries named.

Our tariff law has not since been changed, but Germany in 1902 enacted a new tariff law very materially increasing her minimum rates on competitive articles, and in addition enacted maximum tariff duties designed to be prohibitory. She first put in operation her minimum tariff and waited until her

industries had become adjusted thereto, and now proposes to enforce her maximum tariff (prohibitory, as I say) against American products unless the United States will accord her people better rates than are permissible under our present law.

Any country has the right to ask any concession it pleases, but it has not the right to demand better terms than are granted to others. Germany has received substantially all the benefits of our minimum tariff and has granted us substantially all the benefits of her minimum tariff. The exchange of minimum tariff rates for minimum tariff rates is certainly reciprocal, and neither country has the right to complain or to ask more.

The United States has never asked better treatment from Germany than she accords other countries, and our settled policy is to treat all foreign countries alike. Our only deviations from this policy are covered by the few concessions permissible under section 3 of the act referred to and our reciprocity treaty with Cuba. Neither the one nor the other, nor both combined, amount to the inauguration of a policy of discrimination.

I have seen it stated in the dispatches that "the German Reichstag is not likely to pass favorably upon a new agreement which grants to the United States Germany's whole conventional duty," i. e., her minimum duty. This is certainly surprising, for it means that Germany asks every concession permissible under our long-existing tariff law, while she boldly refuses to treat the people of the United

States as liberally as she treats the people of many other countries.

I am glad to have Germany accorded the most favorable terms possible under section 3 of our law (our conventional tariff) in consideration of a concession from Germany of her conventional tariff, but I am unalterably opposed to conceding to Germany everything we have to give and receiving from her only a part of what she concedes to many.

If it be the intention of the majority of the Reichstag—as indicated in the dispatches—to discriminate against the people of the United States unless we consent to discriminate against all the rest of the world, I should prefer gracefully to submit to her prohibitory tariffs rather than to enter into a solemn agreement consenting to any measure of adverse discrimination. I think we can safely stand on the proposition that the products of American labor shall be treated in every port identically as similar products from other countries are treated.

Of course no one can predict how Congress will look upon the proposition. The wisdom of abandoning our present policy of treating all countries as we would like to be treated, and of adopting a policy of treating each country as that country treats us, will have to be considered sooner or later. Of one thing you need have no fear, and you can assure your readers accordingly: If the commercial relations between Germany and the United States shall be less cordial than they have been, the United States will

not stand charged with the initiation of the policy of discrimination.

Both Germany and the United States are protection countries, but Germany has carried the principle of protection much farther than we. Some avowed protectionists in this country insist that tariff duties shall only measure the difference in the cost of production. If Germany should apply this principle she would need to impose no duty whatever against American products, and very little, if any, against the products of adjacent countries. On the contrary, she imposes relatively much higher protective duties against her neighbors than we do against Germany, and proposes to maintain prohibitive duties against the United States unless, as I say, we will discriminate in her favor as against the rest of the world.

There is one other feature of this controversy over which there is much false—and some willfully false—teaching. It is frequently urged that Germany is about to impose retaliatory duties against us. So long as the United States admits the products of Germany on as favorable terms as the products of other countries, she has nothing to retaliate. Certainly, the United States has the same right to maintain protective tariffs and to determine the amount of protection necessary as has Germany. So long as we do not discriminate against the people of Germany, the people of Germany should not complain. It is therefore Germany, and not the United States, which proposes to impose discriminating duties and to invite retaliation.

If Congress has the courage it will provide that whenever any country imposes against the products of American labor higher tariff duties than upon similar merchandise produced elsewhere, then, and in every such instance, the rate of duty on all merchandise coming from such country thus discriminating against the people of the United States shall be twenty-five per cent higher than the regular schedules of the existing tariff law, and that all merchandise now on the free list (excepting such articles as we may desire to import rather than to produce) shall be dutiable at twenty-five per cent ad valorem. This will give an opportunity to admit free certain dyes and chemicals necessary for our textile manufactures, and possibly some other items, and will save our labor from adverse discrimination not only in Germany but elsewhere.

We now export very little to Germany except raw cotton and food products. Of our aggregate sales to Germany—approximately \$200,000,000—more than one half is raw cotton, and \$15,000,000 in lard is the next largest item. There is no other place where Germany can get these articles, and they are not included under her prohibitory duties. Whether Germany consumes our surplus food products or not is relatively immaterial. The world never has six months' food in supply. If Germany does not take our meat she will consume the meat from some other country, and its consumption will remove it from competition with our own.

I should regret a tariff war, but there are some

things preferable to humiliation by consent; and we can stand discrimination quite as long as any other country on the map. England consumes \$500,000,000 of our products, and at the same time admits products of the United States to her ports free of duty.

If we were to make concessions to Germany the same concessions should in all fairness be made to every other country, and then Germany would have the same cause to complain as she has now. Her proposition is that she shall have better terms than any as a prerequisite to granting the people of the United States as favorable terms as she grants several others.

THE TRADE AGREEMENT WITH GERMANY

On September 10, 1907, Mr. Shaw wrote to a New England banker as follows:

MY DEAR SIR: Replying to your request for my opinions of the recent trade agreement with Germany, I prefer to submit the arguments for and against it without expressing any opinion. You can judge of it. Much may be said on both sides.

In 1902 Germany passed a new tariff law materially increasing her minimum tariff, and added a new maximum tariff on many articles fully fifty per cent higher yet. Manifestly, her maximum tariff was in-

tended to be prohibitory and to be imposed against such countries as refused to make satisfactory concessions.

Admittedly, Germany is a protection country, and her protective tariff law is much higher than that of the United States. I must not be understood as saying that her tariff duties are higher than those of the United States, but the protection feature of her rates is higher. To appreciate this one must understand that a tariff which only measures the difference between the cost of production in the country of origin and the country of destination offers no protection whatever. It simply insures open competition. If a given article can be produced in Germany for \$5 and in the United States for \$6, a tariff of \$1 would fail to protect the American producer. It would simply offset the difference in cost and place him in competition with the foreigner, with no advantage to either.

It is also manifest that Germany needs no tariff to protect the producer of manufactured articles against the United States, unless the people in the United States imitate the well-recognized practice of Germany, of selling goods abroad cheaper than at home.

Wages are not much higher in Germany than in France, another protection country though not so distinctively such as Germany. Therefore, whatever tariff Germany levies on manufactured goods measures her protection, while the United States must

impose an average of at least twenty-five per cent to measure the difference in the cost of production here and in Germany.

I therefore repeat the proposition that the protective feature of the German minimum or conventional tariff is much higher than that afforded in the Dingley tariff law.

The people of the United States have never been able to export manufactures, except patent-protected articles and food products, in any considerable quantity to any European country. The difference in the cost of labor is a complete and effectual bar. Our exports to Europe are made up largely of raw material and food products.

No serious-minded person, therefore, disputes the proposition that Germany's purpose is not to retaliate, for she has nothing to retaliate against, but to demand and exact terms acceptable to her. Her motto is: "Germany works for all the world, but no one works for Germany but Germans." What arrangement, therefore, will prove satisfactory to a great exporting country like Germany, the most progressive and the most aggressive country on the map? I admire her skill. I admire the loyalty of her Government to her manufactures. I admire the enterprise of her people. They send students from their universities to study the conditions of the markets in every South American, African, Australian, and Asiatic port. Thereafter, becoming familiar with the languages of these countries, and learning what

Germany Demands Discrimination in Her Favor.

the people desire, they are able not only to capture the markets but to hold them against all comers—their efforts in this direction being fostered by the Government through a liberally subsidized merchant marine. Not content with this, Germany now undertakes to force her goods into protection countries by submitting the alternative of conceding her entrance or being prohibited the German markets.

No concession will be satisfactory to Germany that does not make possible the admission of merchandise to the United States which our people now produce. If the concessions thus far made accomplish this, some of our factories will of necessity be compelled to close their doors. On the contrary, if the concessions prove unimportant, Germany will doubtless demand more. What the effect will be is, of course, problematical. The representatives of foreign steamship lines, dealers exclusively in imported merchandise, customs brokers, and a large majority of the minority political party insist that the prosperity of the people of the United States is measured by the volume of their imports as much as by the volume of their exports.

Strange as it may seem, the American people import more largely under a high protective tariff than under a tariff for revenue only.

A Paradox.

The reason is logical, however. When the American people are prosperous, as they always have been under a high protective tariff, they con-

sume everything in sight and send abroad for more. On the contrary, during periods of financial depression they consume very little except the common necessities of life, and importations fall off. It is an elementary doctrine of the majority party that the American people prosper in proportion as American labor is given the opportunity to produce that which we consume. Naturally, therefore, those who think it unimportant who produces that which we consume think well of any trade agreement that promises greater imports, while those who consider certainty of employment for American labor a matter of first importance look with apprehension on any arrangement made with intent to admit for American consumption merchandise which we now produce.

Very many German factories produce only for the American market, while certain other factories produce certain articles only for the Some
American market. A manufacturer of Illustrations.
china, for instance, will produce cups, saucers, plates, and other articles of certain design decorated in a certain way, and sell the same only in the United States. The same factory will produce other cups, saucers, and plates of exactly the same weight, made of the same clay and in the same manner, and costing precisely the same, though decorated differently, and sell the same exclusively in the home market. By maintaining a very high domestic price the factory can sell the article made for America very much below the actual cost of production.

The statute provides that ad valorem duties shall be levied upon the price at which the merchandise is ordinarily sold at wholesale in the country whence exported. As the articles made expressly for the American markets are not sold in the country of origin, the importer insists that the duty shall be levied upon the export price. The agreement as I understand it concedes this; for it provides that the duty shall be levied on the export price, unless the appropriate officers ask other evidence. It is not likely that a Treasury official will ask other evidence after the State Department has arranged otherwise.

The bane of the customs service is consigned merchandise. The foreign producer sends it to the United States consigned to his agent, and places such value upon it as he pleases. It being produced solely for the American market, there is frequently no foreign market value except a few fictitious sales which the importer is able to prove. Under these circumstances the statute authorizes the appraising officer to investigate the cost of manufacture. When this is attempted, however, hindrances and objections of every conceivable character are interposed. In a great majority of instances the evidence can be discovered only in secret ways. Naturally, the American manufacturer looks with apprehension upon a provision that these investigations can be made only by some person appointed by the State Department and approved by Germany.

It is well-nigh the universal practice throughout Europe to sell merchandise in the United States cheaper than at home. This policy is encouraged in every country except Eng-
Dumping.
 land, and the people of England practice it. Therefore, if a law or any agreement can be secured levying duty upon the export price to the United States, it will be equivalent to a reduction in the tariff of from ten to twenty-five per cent. Those, therefore, who think the new trade agreement unwise, not to say unauthorized by the law, expect to see German-made merchandise poured in upon us to such an extent as to affect seriously many industries. It is an easy matter to make dress goods and even staple textiles slightly different for export; and while they might cost exactly the same as an article sold at home, yet, there being no domestic price for the consigned articles, the exporter will be able to fix the amount of duty which he will pay. So at least say those who object to the agreement.

There are many who urge that the concessions contained in the agreement are preferable to the alternative. To this the opposers of the agreement reply that Germany would never enforce her threatened prohibition. We now export to Germany very little except food products. While Germany consumes \$200,000,000 of American products, more than half of it is raw cotton, and against this she imposes no tariff whatever. She consumes about \$15,000,000 of American lard, and there is no other place where

Germany Can
 Ill Afford Dis-
 criminative
 Tariffs.

she can obtain it. Her threatened prohibition would exclude not to exceed \$30,000,000 or \$40,000,000 of American products, while, if Congress should answer discrimination with discrimination, it would exclude several fold as much of German products from the United States.

Among those who think the new arrangement unwise are some who look upon it as a concession made in obedience to a threat. Many of these would have met Germany's ultimatum with a counter proposition. They would have enacted a law to the effect that when any country imposes higher rates of duty against the product of American labor than upon similar merchandise coming from other countries, then the duty on all merchandise coming from such countries thus discriminating against American labor shall be twenty-five per cent higher than the regular schedule of the Dingley Tariff. They insist that this would bar several fold as much German merchandise as the German maximum tariff will bar of our own products. In the face of such a law no country would inaugurate a policy of discrimination. They think the best way to provide against war is to have a good navy, and the best way to provide against a tariff war is to enact a provision which will be self-operative and take effect so soon as any country begins a policy of exclusion.

Prior to the new agreement, the United States has treated all countries alike. It has protected the American producer to any extent which Congress

has deemed wise, but it has shown no discrimination between the people of other countries. Naturally, we must pursue the same policy in the future, or we must show discrimination for discrimination, or we must make concessions here and there and deny them elsewhere. The issue thus raised must, and that very soon, be determined. Every advocate of reciprocity necessarily advocates showing preferences. That is what reciprocity means.

I have not mentioned the concessions made on argols and other products of the wine vat, brandies, pictures, etc., relatively unimportant, for they are authorized by section 3 of the Dingley Tariff Act, and no interest is seriously affected thereby.

PART V

MERCHANT MARINE

XXVII

INTERNATIONAL TRADE

WITHIN the last half century the United States has not only assumed importance among commercial countries, but in the last decade she has become the greatest commercial nation of the world. Not only do her exports exceed those of any other country, but her domestic commerce is more than twice as large as the aggregate international commerce of the round earth.

The nations of the earth sell to each other, \$12,000,000,000 worth of merchandise per annum, one eighth of which originates in the United States, and one ninth finds our ports for ultimate consumption.

While the people of eighty and more commercial countries sell, the one to the other, merchandise worth \$12,000,000,000, the American people sell among themselves more than \$25,000,000,000. These stupendous and incomprehensible figures make some of us proud and some arrogant. They should make us all thoughtful, and prevent any of us from becoming recklessly radical.

We point with pride to our export trade of a billion and a half, and felicitate ourselves on our ability as international merchants. Will
 Our Exports
 Are Self-
 Selling. I be pardoned if I suggest that this export trade is due in no very large degree to our skill either as international merchants or as international bankers?

We grow three-fourths of the cotton of the world, and, there being no other supply, the world comes to us for it. It comes willingly and in its own ships.

The world never has six months' food in store. If harvests should cease for six months, the world would starve. The United States is again fortunate, for her farms annually yield largely in excess of what 90,000,000 people can consume; and a hungry world comes for our surplus. It requires no international merchant to sell raw cotton to countries which grow none, or food products to people who produce less than they consume.

We produce 400,000 tons of copper per annum—more than half the world's aggregate. Of this we consume somewhat over 200,000 tons, and export nearly as much. This being the source of greatest supply, the world again comes for our surplus, and comes in its own ships. It requires no international merchant to sell copper.

We produce seventy-three per cent of the world's supply of refined petroleum. It would seem to require neither an international merchant nor a merchant marine to market our surplus petroleum. The

Standard Oil Company, however, in its international business has found it convenient to provide ships.

Of our aggregate exports about \$1,000,000,000, nearly two thirds, consists of raw cotton, food-products, petroleum-products, crude copper, lumber, and other raw materials and partly manufactured articles, of which we produce a surplus, and which the world not only needs but must have.

The time is coming—with our increasing population more largely urban than ever, with factories multiplying more rapidly than farms, with limitless manufacturing resources, and matchless aptitude for production—when the United States will need new and important markets. The world may come to us in its own ships for the products of our farms and the raw products of our mines, but it will never come in its own ships for the finished products of our factories. We are sure to need, gentlemen, international bankers, international merchants, and an international merchant marine.

I am well aware that this is not supposed to be a popular theme, but I accepted your courteous invitation for the sole purpose of bringing to your consideration questions which public speakers usually avoid, hoping you might think them over, talk them over by your firesides and in your places of business, to the end that we may some time, and as soon as possible, agree upon some course, some policy, that will restore our flag to her deserved place on the seas and give to American enterprise its share of the carrying trade of the world.

I am well aware that there are some, and they are not confined to any one party or to any one locality—they are prominent in both parties, and are found on the shores of New England and on the prairies west of the Mississippi—who urge that we need do nothing more than gracefully surrender a portion of our \$25,000,000,000 of domestic commerce, and then, by a logic which I do not understand, we will get a so much larger share of the world's \$12,000,000,000 export trade as to fully compensate ourselves. I confess that I am not prepared for this line of reasoning, nor for another trial of the experiment. But I desire to confine my remarks to the importance of a merchant marine.

Over one hundred years ago Congress passed an act giving to the American shipbuilder and the Coastwise Trade. American shipowner a monopoly of our coastwise trade. Since then political parties have passed into forgetfulness and others have come and gone. Administrations have changed again and again, but that old law remains intact. It has often been assailed, but no party has dared repeal it. It, therefore, has the stamp of nonpartisan approval. As a result, we have the largest and cheapest coastwise trade in the world. The Detroit river floats more tons of American freight than all the foreign commerce that enters London, Liverpool, and New York city combined, and under every ton is a ship built of American materials, by American workmen, owned by American capital, operated by American

enterprise, and over every pound floats the Stars and Stripes. This country certainly possessed some measure of statesmanship in the days of James Madison, and wisdom did not die with the fathers, or the law ere this would have been repealed.

Practically half a century ago the present minority party inaugurated, and soon thereafter the present majority party adopted, the policy of subsidizing railroads. It gave subsidies of money, or subsidies of land, or of both money and land, to encourage the construction of transstate and transcontinental railways. The Illinois Central and other roads, besides the Union Pacific, the Southern Pacific, and the Northern Pacific, each received government aid. These roads opened an empire of matchless resources, and here our everincreasing population found ample room and abundant opportunity. They improved farms, developed mines, and builded States, yielding a commerce which has made these roads in turn self-supporting, so that no county, or State, or the General Government longer grants aid to railroads. We not only have the largest and best railroad system in the world, but the cheapest freight rates in the world.

Not only has the General Government thus subsidized domestic commerce by direct appropriations from the public treasury in aid of railroads, but it annually subsidizes commerce, both domestic and foreign, by large appropriations for the improvement of rivers and harbors. No difficulty is ever experienced in passing

Other
Subsidies.

Rivers and
Harbors.

a river and harbor bill if its benefits are sufficiently distributed.

The Government has recently embarked upon a policy of granting direct subsidies to agriculture.

Irrigation. Enormous reservoirs are constructed and

canals dug for the purpose of irrigating lands in the arid and semiarid belt. The word "subsidy" is so unpopular that we have sought to avoid its use and have therefore kept the proceeds of government lands in a fund by itself so as to pay the cost and expenses of these irrigation improvements therefrom. It is so different from what it would be if the proceeds of these lands were paid into a general treasury and the expenses taken therefrom. It is bad enough to deceive others, but worse to deceive oneself.

The Government is now enlarging not only the scope but also the amount of its bounty. It has paid **The Panama Canal.** fifty millions for the right to dig a ditch in aid of international commerce, and proposes to pay two hundred millions more, or five hundred millions more, in the construction of the ditch, more millions still in its maintenance, and no end of millions if necessary in its defense. Then, after all this outlay, we are under contract to grant its use for all time to all the world on the same terms as to the people of the United States.

At first blush one might expect partisan opposition instead of nonpartisan cooperation. But so manifestly wise is the enterprise, so abundantly able is this Government to bear the expense, and so many advantages are to be derived therefrom that through-

out the length and breadth of the nation no voice is heard against it.

You may find it necessary to glance at the map before you appreciate that it is about the same distance from the principal ports of Europe to San Francisco via Cape Horn as from New York to the same port. It is also about the same distance from the principal ports of Europe to San Francisco via the Suez Canal as from New York to the same destination via the Straits of Magellan. Cut the Isthmian Canal and it will be about the same distance from New York to Hongkong via Panama as from Liverpool to Hongkong via Suez. The completion of the canal will move the line of equal distance from the eastern to the western shore of the Pacific. We will get the worth of our money, provided we prepare ourselves to get our share of the use of the canal.

The markets of South America, South Africa, and the adjacent islands are just being developed. The eyes of the world are upon them. The merchant nations of Europe know where they are located, and they are establishing banks and warehouses within them, and have already established regular and fast lines of steamers to them.

Other Nations
Already Upon
the Scene.

The United States, with few exceptions, has neither banks nor commission-houses nor warehouses in these countries, nor has it means of communication with them, except through old, worn-out, dilapidated ships, sailing under foreign flags and making eight or ten knots an hour, or by way of Europe.

The United States imports a million dollars' worth per day of tropical and semitropical products. It sends to Europe, in excess of everything we receive from Europe, a million and a half dollars a day in raw materials and food products such as I have described; and Europe in turn sends her exports to the ports of South America, South Africa, and the islands adjacent in subsidized merchant fleets. I do not need to tell you of the great number of ships that sail the triangle. They start from home with a cargo of finished products which they leave in those southern ports, then load with coffee, rubber, hemp, sisal, mahogany, dyewood, and fruits for the United States, then take a load of our raw materials—cotton, copper, petroleum, and food products—back to Europe.

I have been many times taken to task for remarks like these. I have received letters, for instance, from certain commercial associations, the principal officers of which are interested in foreign steamship lines, calling my attention to the fact that means are at hand for carrying to these southern ports all the merchandise that America sends thither. I have never taken the position that what goods we ship to South America do not ultimately reach those ports.

I have sometimes called attention, however, to the fact that the quickest way to go to South America, or to send mail or freight, and the most usual way, is to send first to Europe and thence to the ports of destination. A large share of our paltry commerce with

A Triangle in
International
Commerce.

Who Shall
Dominate
the Pacific?

those countries does actually go by way of Europe rather than in these old scows owned by the men who take the position that because there are ways in which goods can be sent thence, therefore no occasion exists for improvement. Of course they are opposed to an American merchant marine.

I am aware, for my attention has been called thereto repeatedly by letter and more frequently still by editorial comment, that a representative of the Department of Commerce and Labor, sent to South America for the purpose of investigating this subject, has reported that there are means of communication between the United States and South America. I have read his reports and I beg my critic's pardon, for the distinguished college professor does not take the position assumed by the steamship companies, that existing means of communication are satisfactory, or that they should not be improved. Permit a few extracts from Professor Hutchinson's report:

The Critic
Convicted Out
of His Own
Mouth.

"Suffice it to say that the service from Europe is carried on by large and fast steamers, thoroughly equipped in every way for freight, passenger, and mail business, running on accurate schedule time, and giving regular communication between Brazil and Europe in each direction at least six times per month, while the steamers from the United States are small and slow, have only inferior accommodation for passengers, and, with the exception of a single sailing each month, are more or less irregular as to time of

departure and arrival. It is thus often possible to get much quicker delivery of an order from England or Europe than from the United States."

After expressing the opinion that this inferiority of American service does not seriously affect large wholesale dealers in standard grades and sizes of goods, because the cables run independently of the mails, he adds:

"With small dealers and smaller orders as well as in all larger orders, where full and specific instructions have to be given as to sizes, shapes, weights, and grades of goods, the mails must be used, and I have met with many complaints as to the inadequacy of the service. I have heard of instances in which it took twice as long to get such orders from the United States as from Europe."

In speaking of the flag as a means of advertising, he says:

"At present our flag is never seen here except on an occasional war ship, or private yacht, or an out-of-date sailing vessel. The mass of the people scarcely know that such a country as the United States exists, and those who do know it, most of them, have but the dimmest notion of the vast economic activities of our people. This is a market peculiarly sensitive to notions of fashion and prestige.

"Most of the population, all except the very few

who have traveled in the United States, have exalted ideas as to the greatness of England, France, and Germany, and the 'fashionableness' of using commodities produced in those countries. There is not the slightest question that these impressions are deepened by visible illustrations of the superiority of the European merchant marine."

These instances are from the one expert quoted by the owners of foreign ships and by the opposition press as having reported that the means of communication with South America are ample for the amount of commerce that now exists.

But suppose that were true. There are no such agents of commerce as the representatives of transportation companies. Senator Proctor Steamships as Business Getters. once told me that his company had a large Australian trade in marble, but he said that it was through no skill or foresight of his company. A line of steamships had begged that instead of going back empty after having brought southern products to the United States, or of going to Europe for a cargo, they might be permitted to carry some marble to Australia. Thus, through the skill and enterprise of a foreign transportation company, so large a trade in marble was established that the company is now compelled to maintain there a warehouse and a business headquarters.

I have never heard of any manufacturers of cotton goods, or of household utensils, or of anything else produced in competition with Europe to whom

the owners of European steamship lines have offered any special advice or encouragement.

Our great difficulty in getting a foothold in these markets is to get our producers interested in the subject. For this purpose the Government goes to great expense in getting consular reports of conditions in these foreign ports. These reports are regularly published in pamphlet form for general distribution. Quantities of them go to Europe, and are sent direct to concerns engaged in the export business, and are thus used against us. They are full of statements to this effect. I quote again from Professor Hutchinson, he being the principal authority of those who oppose every means for the creation of a merchant marine. He says:

“ As I came south I found conditions much more encouraging, and here in Rio de Janeiro and in the neighboring state of Sao Paulo, I have been deeply impressed with the possibilities which are awaiting development. It is pleasant to note an undercurrent of friendliness toward the United States and a seeming willingness to meet any advances our people may make at least halfway. There is a great field awaiting development if our exporters can be made to believe that it is worth while to employ the right methods.”

Does anyone doubt that an American line of steamships making regular trips to Rio de Janeiro, the Government paying the loss until trade is estab-

lished, would knock at the door of every factory in the United States, submit samples of the goods consumed by the people, and beg their production and the privilege of carrying them?

In the same report Professor Hutchinson says:

“New lines established now would have to run at a loss for a very considerable time. Of this there can be no doubt.”

In the same trade report in which Professor Hutchinson's oft-quoted article appears is an article by A. T. Wills, who was sent abroad by the *New York Commercial* to inquire into trade conditions. I quote therefrom:

“The Germans are especially aggressive, and many of the German houses are doing the business we ought to be doing. If they see that American goods are in demand they get samples of them, send them home, and invite the manufacturers to imitate the articles, even if they are inferior, and thereby get the trade. This is not difficult, for there is no representative of the American interests on the spot to defend our goods.”

Does anyone doubt that an American line of steamships, in part dependent upon the traffic, would see that our goods were defended?

He further says:

"Spain has the East India and Egyptian cotton market to draw upon as well as ours, has good shipping facilities, and, more important than all this, turns out goods which the Spanish-speaking people all over the world want. It gets the trade because its manufacturers turn out goods to meet the requirements rather than, as we do, try to educate their customers to take what they produce."

The reports are literally full of specific instances where our manufacturers have refused to change their patterns to meet the conditions of South American trade, or where they have abandoned a trade partly established whenever there has been a local demand sufficient to keep their factory employed. Does anyone doubt that the representatives of American transportation companies would do much toward correcting these things?

Possibly some one will say: "Who cares particularly for the American manufacturer? It is his business, not ours." Yes, but it is my American business also. I own some farms in Iowa, People Jointly Interested. and I want my tenants to feed the men who manufacture for these markets. I am selfish. In fact, I am so selfish that I desire every industry under our flag to prosper, and I hope I am wise enough to know that no one class of American people ever did prosper except when all our people prospered.

The plea most commonly urged against government encouragement for merchant marine is avowed opposition to paternalism. If men wish to engage in foreign shipping, let them do so is the cry. Why should the people be taxed in aid of a single industry? Yes; but the people are now taxed to encourage men not only to go into business but to keep in business. Every dollar spent to build canals, every appropriation to widen the channel of a stream or deepen a harbor, every dollar spent in the reclamation service, is for the sole and avowed purpose of encouraging single industries. And they are justified on the theory that commerce, though unfeeling and selfish, is of untold benefit to our every citizen.

A False Plea.

South America, South Africa, Australia, and adjacent islands consume a thousand millions of exports per annum, of which the United States furnishes only twelve per cent. Is this our share? The ports washed by the Pacific Ocean consume a thousand million, of which the United States furnishes only five per cent. Are we not entitled to more? Yes, we are entitled to all we can get, but we can get more in only one way.

We occupy the best position on the map. We have the most convenient form of money in the world. We speak the language of commerce. Our farms produce more than the farms of any other country. Our mines yield gold literally by the carload, silver by the trainload, and there is unloaded on the

American
Bottoms for
American
Cargoes.

shores of a single commonwealth more iron ore than any other country produces. Our forests yield one hundred million feet of lumber for every day of the calendar year. Our factories turn out more finished products than all the factories of Great Britain and Germany combined by more than three thousand millions every twelve months.

We transport this matchless product of farm and factory, forest and mine, from the interior to the sea at one third what similar services cost anywhere else beneath the skies. We carry it from point to point along the coast in better vessels, on quicker time, and at cheaper rates than others. But at our coast line we are brought to an abrupt halt. Here we are no longer independent. Our foreign commerce is four times as large as forty years ago, but we carry in our own ships only one third as many gross tons as forty years ago.

We have protected and encouraged every interest but our merchant marine, and every protected interest has flourished. We have every facility for international commerce except international merchants, international bankers, and an international merchant marine. Shall we not have these?

If we will but take advantage of our opportunities we will send these products of farm and factory under every sky and into every port, and make our financial centers the clearing houses of at least a fraction of the world's trade.

—BEFORE THE AMERICAN BANKERS' ASSOCIATION, WASHINGTON, D. C., OCTOBER 11, 1905.

XXVIII

SUBSIDY BILLS

AS proof that American people are becoming interested in international transportation facilities, I have only to cite the fact that at a recent session of Congress nearly a score of bills were introduced for the avowed purpose of encouraging the growth of our merchant marine.

The American people are not proud of the fact that while the United States ranks first in natural resources and first in developed resources, with a larger foreign commerce than any other nation save one, she stands at the very foot of the list in her facilities for transporting these resources to the ports of other countries. The subject is therefore popular, though no one remedial measure has yet become popular. Those who advocate a subsidy are accused of being in league with a shipping trust. There is no shipping trust, except it be in the ownership of vessels built in foreign yards, of foreign materials, with foreign labor, and flying alien colors. But these will certainly be excluded from participation in an American subsidy.

A prominent Southern congressman recently severely criticised a Western senator for his advocacy of a ship-subsidy bill, which, had it been

passed, would have cost the Government not to exceed a single million dollars per annum, until more American ships had been built; yet before he sat down he recommended an expenditure of **Opposition** **Inconsistent.** \$400,000,000 for good roads. The appropriation of \$1,000,000 per annum, coupled with a pledge of a maximum of \$9,000,000 when enough American ships had been built to earn it, would have secured specific contracts for three distinct lines of steamers, plying between the United States and ports where we now have no direct communication. But the prejudice against the word "subsidy" defeated the bill.

I do not affirm that the only way to secure a merchant marine is by means of subsidy. I am in favor of a merchant marine, and I recognize that one will not spring up spontaneously. It will cost much, but will be cheap at any price.

Our manufacturing interests have been developed under the fostering care of the Government. Our **Present** **Subsidies.** transcontinental railroads are the result of wise, though severely criticised, legislation. Our harbors have been and are being dredged and improved.

We are fast acquiring a navy to be proud of, and are fast becoming proud of the navy we have. But a navy costs money. Yet the American people are willing to pay the price. I believe they are willing to pay the price of a merchant marine.

—BEFORE THE PENNSYLVANIA BANKERS' ASSOCIATION,
PHILADELPHIA, MARCH, 1904.

XXIX

NEW MARKETS AND THE SUBSIDY

IN October, 1902, the Merchants' Association of New York wrote the Secretary, submitting some objections to the then pending shipping bill. Mr. Shaw replied:

GENTLEMEN: Your letter of October 29th awaits my return. If you will reread my Detroit speech you will observe that I did not commit myself in favor of any particular ship-subsidy bill. I simply spoke in favor of nonpartisan action, if possible, for the building up of a merchant marine. I quote a few sentences from the Detroit speech: "A ship-subsidy bill has passed the Senate. I am not speaking in favor of it. . . . So, without discussing the merits of the bill now pending, I want to urge the importance of a bill constructed upon very different lines; one that shall insure regular steamship connection with South American countries, South African countries, and the adjacent islands."

A Letter on
Merchant
Marine.

It is idle to suppose that steamship lines will be established to those ports without government aid. There is little freight now to carry, and therefore

no inducement. A steamship line that would engage in that trade would be in the hands of a receiver long before sufficient trade could be built up to make it self-supporting. It took long years to establish sufficient transatlantic commerce to make our Pacific lines of railway profitable. It will take perhaps longer still to make steamship lines to those ports far to the southward profitable.

I am glad your association is interested in the general subject. I hope you will pardon the suggestion that bar associations, bankers' conventions, manufacturers' associations, and similar organizations underestimate the difficulty in securing ideal legislation. The position taken by these organizations is usually the work of a few minds, frequently one mind, while our legislation is the compromise of many minds.

While I have very strong personal convictions on the subject, yet it is for the Congress to assume the burden and responsibility of working out the details of the pledge in the Republican platform at Philadelphia for "legislation which will enable us to recover our former place among the trade-carrying peoples of the world." Others may be satisfied with furnishing ten per cent of the import trade of South America and the Pacific Ocean countries. I am not. And I am abidingly of the opinion that it will require a very much larger relative subsidy to encourage lines of steamers to countries where we have little mail and less freight than to insure competition in transatlantic commerce.

If charged with the responsibility of drafting a bill I would have some very definite ideas to incorporate; but I shall not oppose every measure which fails to conform to my individual judgment. I shall utter no protest at a few unsuccessful experiments.

I think your association will agree with me that the most important question before the American people to-day is more markets. It will take twenty-five years, under the most favorable conditions, to work up a respectable trade in South America, South Africa, and the adjacent islands. Some may believe we can successfully invade these markets through foreign bottoms, first to Europe and thence to ports of destination, notwithstanding the uniform discrimination now practiced against us; but I do not share the delusion. I know of some very excellent people who favor aid to lines reaching southward, and who oppose transatlantic lines. Others favor aid to transatlantic lines and think it useless to seek to increase the South American, South African, and insular commerce. Personally, I believe the bill that passed the Senate would have been much stronger had it provided special inducements for lines reaching to the southward. But, as I say, the responsibility is with the Congress. My Detroit speech was simply in support of the plank adopted by my party at Philadelphia, coupled with some suggestions as to the need of legislation on the subject.

PART VI

TRUSTS

XXX

RESTRAINING TRUSTS—PARTY ACTION

THE method originally adopted by which competing concerns allied their interests was through the agency of a trustee. Two or more concerns would place their entire output, and possibly the control of their factories, in the hands of a trustee. This trustee could then advance the price at pleasure. These organizations were called trusts because they were operated through a trustee. They have existed in this country for many years. They were such a menace to trade during Mr. Cleveland's first administration that Congress appointed a committee to investigate the subject. This committee failed to make its report until after the election of that year (1888). From this report I quote the following language:

“Your committee respectfully report that the number of combinations and trusts formed and forming in this country is very large, and affects a large portion of the important manufacturing and industrial interests of the country. They do not report any list of these combinations for the reason that

new ones are constantly forming and old ones are constantly extending their relations so as to cover new branches of business and invade new territories."

Unless the language employed was grossly extravagant, trusts were very bad and growing constantly worse during Mr. Cleveland's first administration. The committee failed to recommend any relief, but instead employed this language:

"Your committee further report that, owing to present differences of opinion between the members of your committee, they limit this report to submitting to the careful consideration of subsequent Congresses the facts shown by the testimony taken before the committee."

Fortunately, a subsequent and a Republican Congress had been elected, and with it Benjamin Harrison as President of the United States. The first bill introduced in the Senate of that Congress, Senate file No. 1, was by John Sherman and was known as the Antitrust Bill. It passed both houses and received the signature of President Harrison. This law forbids the doing of anything the effect of which is to eliminate competition, and it makes the doing of any such act a criminal offense. The law was immediately recognized as effective against any combination operated through a trustee.

The next most common method was to organize

one large corporation, which should own and operate the several plants. These units usually went through the formality of selling to the large corporation, the stockholders taking as much stock in the big concern as they received for their original plant. Another plan is to organize a holding company to which is transferred the stock of the several plants. The effect, however, is the same.

Evasion of
the Law.

It will be readily seen that the present method is more difficult of treatment than the former. Men are permitted to own two farms; to operate one and to keep the other idle. Shall they not be permitted to own two brick yards or two woolen mills, or as many more as they please, and operate any one or two at pleasure? I mention this to suggest the difficulty, not to intimate that treatment is impossible or impracticable.

The Sherman Act was passed July 2, 1890. On March 4, 1893, our political opponents again secured control. Their platform declared specifically against trusts and promised additional and effective legislation. It is easier, however, to draft resolutions for political conventions than to draft laws for statute-books. Suffice it to say, however, that the party went into power, remained in power, and retired from power without adding a strengthening clause to the Sherman Act.

Since its adoption, more than 1,500 men have been elected to the two houses of Congress. Many of them promised, and some of them guaranteed in their preconvention and preëlection campaigns, addi-

tional and effective antitrust legislation. No one, however, has been able thus far materially to improve the Sherman Act. The machinery by which it is enforced has been simplified, but the act itself is about as broad as it is possible to formulate it. Many think it is too broad in that it prohibits all agreements in restraint of competition, even when admittedly beneficial.

Even a distinguished leader of the opposing forces, twice a candidate for the Presidency, was four years in Congress, but what he has said on the trust issue since his retirement far exceeds all he did on the subject while in Congress. I do not say this unkindly; I have no doubt that in sincerity, and with the very best ability he could bring to bear upon the subject, he tried to find a way to improve it. He seems to have found none, and he now recommends nothing in addition that is in any sense feasible.

Our present difficulty does not lie so much with the law as in securing proof that the law has been violated.

Proof It is not an offense to ask or receive
Difficult. exorbitant prices. Two men engaged in interstate commerce may sell their wares at an exorbitant price without violating the Sherman Act; but when they agree to sell only at a given price, then the Sherman Act can be applied if the fact of the agreement can be established.

It takes evidence, however, to prove an allegation, and evidence that two men or two corporations have agreed to advance the price of an article is difficult to obtain. In town-meetings and political con-

ventions sentiment counts for much, but in the court room evidence and not sentiment prevails. In this connection I wish to emphasize the fact that it will be difficult to formulate an antitrust law that can be enforced without evidence.

Of course our political opponents bring forward their time-honored panacea for all financial and industrial ills. They charge the protective tariff with being the mother of trusts, and as a remedy for all its evils they propose free trade. The trust being an admitted evil, it follows, from the opposition point of view, that protection must be the cause.

The Panacea
of the
Opposition.

This issue has been fought over and over again, ever since the revival of industries at the close of the Civil War. The old Antimonopoly Party declared that the tariff was the mother of monopolies. Pending the Sherman Act, the opposition party in Congress denounced it as a revolutionary bill, declared the only correct thing to do would be to adjust the tariff so as to invite foreign competition. Shortly before the bill came to a vote in the House, Mr. Wilson, the Democratic leader, who, by the way, was one of the committee appointed in 1888, and who signed the report saying in effect that the task of dealing with trusts should be submitted to subsequent Congresses, and who was subsequently the author of the Wilson-Gorman Bill, denounced the pending measure—declared it would seriously affect the business and prosperity of the country, and, what was more, the rights and liberties of the people, and

added, "Was ever criminal law made in this fashion before?" The opposition took the position that the Federal Government could not deal with trusts. I quote a few sentences from his speech:

"I have said this much only to show that the common basis of trusts is the corporation. If, therefore, the organization of a trust must have the corporation as a basis, it is clear that the first and most effective blow at that organization must be struck, not by Congress, but by the States. If anyone supposes that such a bill as this, no matter how severe the punishment it threatens or how sweeping may be its prohibitions, will prevent such combinations as it seeks to destroy, he does not, I fear, fully understand the structure and operation of trusts."

He then urges a modification of the tariff as the only federal remedy. He also quotes certain extracts from papers written on the subject by himself for the *Baltimore Sun*.

In these he makes an argument that the protective tariff invites overproduction, and that to escape the loss threatened by overproduction "manufacturers are compelled to form these combinations." "The circle is," he says, "first, excessive stimulation; next, excessive production; and lastly, combination against the consumer." Later on, he says: "Mr. Breckinridge, of Kentucky, made a proposition in the last Congress (the Fiftieth) that whenever the chief production or sale of any article passed into the control of a trust, the Secretary of the Treasury

should place that article on the free lists until the trust was dissolved." That, you will notice, was Mr. Breckinridge's remedy during Mr. Cleveland's first administration. Mr. Wilson adds: "Public sentiment doubtless would approve such a measure, but it would punish the innocent together with the guilty, the independent refiners as well as the sugar trust, and would unsettle business and invite combinations for mere purposes of speculation."

I make these quotations to show that in 1890 the biggest Democrat in Congress—their leader—opposed the Sherman Act—first, because it was revolutionary; second, because it would be ineffective; third, because the State, and not Congress, should deal with the evil—and then urged a revision of the tariff as a cure-all; and also to show that while he did this in a most strenuous way, he recognized and admitted, as the mouthpiece of his party, that placing trust-controlled articles on the free list would "punish the innocent together with the guilty"; that it would introduce such "vacillation in our tariff laws as would unsettle business," and that it would "invite combinations for mere purposes of speculation."

Another remedy recommended by our political opponents is a constitutional amendment giving Congress authority to deal with trusts regardless of State lines. Indeed, Republicans voted for such a measure once, but it failed to pass because all but one of the opposition voted against it, and it requires a majority of two thirds to pass an amendatory reso-

A Proposed
Amendment
to the Consti-
tution and What
Happened to It.

lution. Just before the proposition was placed upon its passage, the opposing leader read with approval an editorial from the *Washington Post*, as follows:

"By supporting this constitutional amendment Democrats will have connived at the permanent retirement of the trust issue, and its withdrawal from the campaign, and thereby rob their party of one of the most powerful engines of war."

He then proceeded to crack the party whip in this language: "If we pass this constitutional amendment the effect of it will be to eliminate the trust question from the campaign. Now, are we going to help to do it? I hope not."

When the roll was called, one lone Democrat voted with the Republicans, and all the others followed the advice of their floor leader and voted to keep the issue for the campaign.

Prominent among the remedies that have been suggested is that of publicity. No one, I think, expects this to be a complete remedy for every phase of the trust problem. It is expected, however, to protect in some degree against fictitious capitalization, and to disclose the real character and inside operations of the concerns. If corporations are compelled to make detailed statements of their business; the actual money cost of their plants; the prices paid for material; operating expenses, including wages; prices obtained for products; then if large profits are shown it will be a constant invitation to enterprise and capital.

If anyone should be disposed to characterize what I have said as a defense of existing conditions, let me at once correct him. I am not in favor of trusts, nor of monopolies of any kind or form, and I see much of evil as well as some measure of good in the trend of industrial affairs. But I am more anxious that the youth shall be taught to face conditions as they find them than to have them told that defeat is inevitable and that they might as well give up. Be assured that if you allow the calamity howler to rob your son of his hope by teaching him that whoever undertakes gigantic enterprises and succeeds is a scoundrel, and whoever furnishes employment for a thousand men is a thief, and whoever accumulates a fortune is a robber, you will be spared the humiliation of ever seeing his name on the stationery of any business enterprise.

Existing Con-
ditions Not
Defended.

Existing laws against trusts are being vigorously enforced. This policy must be continued, and the laws themselves must be reënforced wherever needed. But there are some things that must be permitted to regulate themselves.

A few years ago railroads experimented with different widths of track. Some roads built as wide as six feet. But that was found too wide, and four feet eight and one half inches has become the standard. Different weights of railroad iron have been tried. I think as heavy as one-hundred-and-twenty five-pound rails have been laid, but experience has shown ninety pounds to be about the maximum prac-

tical weight. One-hundred-and-twenty-ton locomotives have been tried, but they have been found too large.

The stationary engine that was the wonder of the Centennial Exposition in 1876 had a capacity of 1,400 horse-power. There are now many locomotives in successful use registering 1,600 horse power, while practical stationary engines have grown from 1,400 to 14,000 horse-power in the third of a century.

The size of steamships is now being increased. Foreign vessels enter New York harbor to-day with a tonnage thirty ¹ times greater than that of the average vessel entering the port thirty years ago. These may prove too large, or others may be built larger still. There must necessarily be a limit to all these things somewhere, and experience will determine the practical maximum.

The amount of capital to be employed in a corporation has been wonderfully increased in late years. An excess of a thousand millions has been reached. This may prove too large. Time will tell. But I doubt if the Government can profitably dictate either the width of the track, or the weight of the iron, or the size of the ship, or the capital to be employed in an industry. It can require railroads to fence their right of way, and common carriers to carry goods for all at a common rate. It can demand that

¹ If this had been spoken in 1907 instead of 1902 the speaker might have said forty times.

the big ship shall not run down the small one, and that it shall give sailing vessels the right of way. It may and must enforce the present laws against combinations, conspiracies, and monopolies, and it must strengthen every weak place by additional legislation.

—AT BOSTON, MASS., 1902.

XXXI

STATUTORY CONTROL OF TRUSTS

IN July, 1902, the President received a letter relative to statutory control of trusts, which he referred to Secretary Shaw for answer. Mr. Shaw replied as follows:

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
WASHINGTON, August 2, 1902.

DEAR MR. PRESIDENT: On reaching home this morning I hasten to reply to some memoranda prepared by some one writing to yourself on the question of statutory control of trusts. I have read the paper with some care. I quite agree with him that governmental supervision of corporations is restricted to those phases involved in interstate commerce. In other words, the Government, under the Constitution, has no authority to impose a condition or an obligation upon a domestic corporation which does not engage in commerce beyond the boundary of the commonwealth in which it is organized.

I quite agree with him also that while the State in which a corporation exists has power to control, it seldom attempts the exercise of this prerog-

ative; that several of the States find it advantageous to encourage the organization of corporations within their limits, and that they grant all possible privileges.

I also agree with your friend that, if forty States were induced to pass uniform laws properly regulating corporations, this would make it more profitable for the remaining States to attract capital by giving them a free hand. I agree with him also that if all the States were to pass uniform and satisfactory corporation laws, and each State should refuse admission to corporations of other States not organized according to this standard, the law would be easily evaded, and in the manner he points out, viz., by selling their product to private individuals who would transport the same and sell wherever they pleased. Thus the major part of the paper is consumed in the recital of well-recognized conditions and by references to impossible and impracticable methods of control.

The author then proceeds to lay down this proposition: "The most convenient machinery of accomplishing this result (the control of the trust) appears to me to be that of taxation." He then proposes that Congress shall impose a franchise tax upon such corporations as purpose to do interstate commerce. Suppose this remedy is resorted to. Will its effect be to discourage large corporations fully able to pay the tax and to encourage a large number of smaller corporations, or will it make a bad matter worse? I confess I can see no advantage in it. It

occurs to me to be an undigested and ill-considered remedy. I doubt if laws can be made that will tax big corporations out of existence and little ones into being. His method of taxation seems to be in the nature of an income tax, or at least a tax upon gross production. He does not, however, make himself clear. Anything so revolutionary ought to be defined with great particularity. He indicates that this taxation must be resorted to as a requisite to a provision requiring publicity. This is not in my judgment necessary. The American Steel Company, the largest corporation in existence, has published its operations more in detail than any other. This I understand to be in strictest harmony with the policy of those in control; and an officer of the corporation recently told me that he thought their next report would give every detail. He most thoroughly believes in taking the public into their confidence.

But, while discussing the question of taxation and publicity, the author seems to be unmindful of the very concessions he makes while admitting that uniform State laws would not remedy the evil. Suppose a law were enacted imposing a franchise tax, supplemented with a provision for the greatest possible publicity. Could not these remedies be evaded, and in the very way suggested by the author for evading the uniform and effective State legislations, to wit: "by selling their product to private individuals who could transport the same and sell wherever they pleased."

The author of this article does not squint at a remedy except taxation and publicity, and he himself suggests a very feasible way by which the corporations can avoid both.

There are a few propositions on which all seem to agree. First, the legitimate employment of capital in manufacture, commerce, and transportation should be encouraged.

Second, drastic legislation must not be resorted to against any person, firm, or corporation except those popularly designated as trusts. And in this connection I think the popular definition of "trusts" is very nearly synonymous with monopolies.

Third, monopolies have no friends in the United States, and any measure against them will meet with well-nigh universal approval, however drastic in its character.

If I am right in these propositions, then the sole difficulty lies in establishing the fact that a given person, firm, or corporation constitutes a monopoly, and if this fact can be established by competent evidence the present antitrust law seems to be quite adequate. The old English recipe for cooking a hare begins: "First catch the hare." The present law may perhaps be improved, but no one, so far as I now recall, has gone very far toward formulating an amendment.

I return your friend's letter herewith and thank you for the privilege of examining it. I quite agree with you that if any improvement in the law, specific

in character, can be devised, it should be not only recommended but urged. The evil is manifest, but the remedy extremely complicated.

Very respectfully,

L. M. SHAW.

TO THE PRESIDENT,

OYSTER BAY, N. Y.

XXXII

ANTITRUST CONFERENCE

AN Antitrust Conference of Governors and Attorneys-General was called to meet in St. Louis in September, 1899. There were only two of the representatives of the majority party present, and the proceedings immediately assumed a political complexion.

The Conference was opened with the reading of a lengthy written address, in which great stress was laid upon the beneficial results likely to follow the free coinage of silver. It was also charged that the tariff was the mother of trusts. This was followed by a carefully prepared address by the Governor of Missouri, who emphasized the viciousness of expansion, denounced imperialism, the protective tariff, and the general trend of the times under Republican policies.

Mr. Shaw, then Governor of Iowa, made a motion, and submitted some remarks which follow:

I move that a committee, consisting of the Governor of Missouri, the Governor of Tennessee, and the Attorney-General of Texas, be appointed to formulate a bill such as, in their opinion, may safely

and advantageously be passed by the legislatures of the several States, and which will remedy, as far as possible, the evils so universally acknowledged.

This motion being seconded, Governor Shaw said: Mr. Chairman and Gentlemen: I regret that the call

Governor	for this Conference did not include all
Shaw's	that was in the mind of him who issued it.
Address.	

It was evidently his purpose to make it not only an antitrust conference, but an antiexpansion and a free-trade and free-silver convention. I say "evidently the purpose" from the tone of the remarks of the chairman, submitted from manuscript and from the manuscript speech of the Governor of Missouri, of which our chairman stated he had knowledge, and which was read at his suggestion.

Had this been done, it is quite possible a larger attendance would have been secured; for certainly it would have then embraced subjects upon which there are greater differences of opinion than upon the question of trusts alone.

I was interested and diverted by the address by the Governor of Missouri. Interested, for he stated that his State had triumphantly exterminated the octopus. I was diverted as he told of the downfall of Rome, caused from evils such as now confront us. I was made to regret that in the expansion policy the Old Empire did not acquire some territory as productive of statesmen as the Louisiana Purchase; and which might then have produced "a governor of sufficient foresight, a legislature of sufficient wis-

dom, an attorney-general of sufficient courage, and a supreme court of sufficient erudition and fairness," to successfully cope with the multimillionaires which, it is now claimed, infested the Empire to the great damage of the common people.

I also regretted, as I listened to the reading of a letter which it was claimed was written by Abraham Lincoln, that this beloved statesman and patriot could not have foreseen what is now claimed to have been done in Missouri, and thereby had his fears allayed.

I prefer a formulated bill, such as I may safely submit to the general assembly of my State, rather than resolutions. I think I am politician enough to draft a set of resolutions so drastic that, if heeded, all trusts and combinations would immediately take their departure from the commonwealth of which I have the honor to be the chief executive; but I am not so confident that I am statesman enough to draft a bill which will compel their everlasting exit, provided they are determined to stay.

If the committee, when appointed, shall draft a bill which seems to be comprehensive and effective I will gladly recommend it; for I desire here and now to say that I have no sympathy with any combination of capital which results in monopoly.

I desire that the Governor of Missouri shall serve upon this committee, for the reason that he reports the statute of his State adequate to meet the demands of the hour; and I hope, if he shall

consider it appropriate, that he incorporate the law recently approved by him, which, if I may trust the verbal testimony of citizens of his State, permits the competing lines of street railway in this city to combine. And I desire that the Governor of Tennessee may serve upon this committee, for, in private conversation, he advised me with evident pride that very extensive deposits of phosphate had been discovered in his State, from which great fortunes are now being made; and he reported that many of the producers of phosphates elsewhere had been thereby driven out of business. I desire him to incorporate in the bill, if he shall deem it advisable, such provisions as will prohibit the capitalists of Tennessee from monopolizing the phosphate industry.

The bill to meet my approval must permit organizations of laborers for the purpose of advancing the price of labor, for we all believe in these; but it must prohibit organizations by the consumers of labor to advance the price of their products, for none of us believe therein.

It must permit the Southern planter and the Northern wheat-grower to combine to limit the output of cotton and of wheat, for we all believe in such organizations so far as they can be made effective; but the bill must prohibit combinations of manufacturers of cotton goods and of flour for the purpose of limiting the output of their plants, for none of us believe therein. I say labor unions must be protected, for, to my mind, no one lives regardless of party affiliations who does not sincerely sympa-

thize with and who will not, in any reasonable way, encourage these organizations.

It will be necessary, therefore, to direct the proposed bill with great accuracy, and, like the Kentucky hunter, so aim it as to hit if it be a deer and to miss if it be a calf.

The remedies suggested by implication in the two speeches of the forenoon session—that of the repeal of all tariff provisions and the free coinage of silver—would, in my opinion, effectually break the back of every trust in the United States. It would accomplish this much in the same way that a fire in a wheat field destroys Canada thistles; but I have learned from observation that these pests will spring up again so soon as conditions are favorable to the growth of another crop of wheat. I had hoped that this Conference would evolve some method of effectively dealing with the evil without resorting to a prairie fire so soon upon the heels of the past (1893–1896).

When I left home last evening I did not suppose that this Conference would resolve itself into a political convention. I believed it would be best for all concerned that national issues be formulated in national conventions called for that purpose. It has never been my purpose to tarry longer than a day. I shall therefore return this evening, but shall watch with great interest the result of your further deliberations; and if a bill shall be formulated I shall give it most careful consideration, and, if I consider it feasible, recommend its passage in my State.

In leaving, I recommend that those who believe it profitable to make this Conference purely political carefully watch the cockatrice den during the remaining sessions, and if the "varmint" be driven out with hot air wire me and I will return, for I desire to be in at the death.

PART VII
THE RATE QUESTION

XXXIII

RATE LEGISLATION

MR. C. L. VOSS, cashier of Mr. Shaw's bank, at Denison, Iowa, wrote asking the Secretary's opinion on the Railway Rate Bill. Mr. Shaw answered as follows:

MY DEAR MR. VOSS: Replying to your letter asking what I think of the pending Rate Bill and its prospect of passage, I submit the following, not so much for the purpose of expressing my opinion as to convey, if I may, the different views respecting the subject.

A rate bill satisfactory to the President is certain of passage. The members of his Cabinet are all in hearty sympathy with him on the subject, though few, if any, of them would agree with him on every detail, and it is likely that no two would agree between themselves. This is a most healthy condition and one that the President both appreciates and welcomes. Let me illustrate what I mean:

I took occasion, at a White House reception the other evening, to discuss the question with two of my associates in the Cabinet who have made speeches

in support of the measure. I asked them separately whether they would prefer to have the bill authorize the Interstate Commerce Commission to fix a maximum rate or an absolute rate. One of them promptly expressed himself in favor of an absolute, and the other in favor of a maximum rate. I then referred to the fact that there are six trunk lines of railway from Council Bluffs to Chicago, and asked them whether they would be willing to grant these roads the right to pool their earnings, provided the commission were authorized to, and should, fix a maximum rate. One of them promptly replied in the affirmative, and the other as promptly in the negative. So you see those who agree on the main question, if they are thinking men, differ somewhat on details.

The country is quite unanimous in favor of rate legislation, though I do not think the average man
Country has any very distinct idea of the details
Favors Bill. of the pending measure.

You will remember that the first rate bill which attracted any public attention was known as the
Three Bills "Cooper-Quarles Bill," named from its
Have Been authors—a congressman and a senator
Introduced. from Wisconsin. The public immediately demanded that the bill should be passed. At the next session of Congress the appropriate committee reported what was known as the "Esch-Townsend Bill." Everyone conceded that it was a much more comprehensive and, in every way, better bill than the former. The public again demanded its immedi-

ate passage. It did pass the House without debate, and, if I remember correctly, unanimously. Then the Senate was importuned for its immediate passage through that body. At the next session the Hepburn Bill was reported. This is admittedly a great improvement over either of its predecessors. Without public discussion as to its merits a unanimous demand went forth for its immediate passage. It has passed the House without debate, and again unanimously or substantially so. The Senate will undoubtedly amend the bill and then pass it, and there is no doubt that these amendments will very greatly improve it.

I am very anxious that there be incorporated a provision giving the Government the right to maintain a civil action against the beneficiary of a special rate, rebate, or privilege, for twice the value of the concession. Such a bill has passed the House, though it has

Civil Actions
Against Beneficiaries of
Rebates.

attracted no attention. I suppose railroads sometimes grant special rates and rebates on their own motion, but my observation convinces me that in a great majority of instances concessions are made at the request, and often on the demand of, the shipper.

An Iowa man, whom perhaps you know, was in my office not long ago, hysterical in his demand for the passage of the Rate Bill. He didn't know a single provision that the bill contained, and seemed astonished when I told him that it did not relate, except in an indirect way, to the rebate question.

He was unable to keep his seat, but arose and walked the floor of my office as he denounced railroad methods. In the course of his tirade he referred to the fact that he had been for years engaged in shipping grain, and told of an instance where, after much solicitation and finally in response to threats of withdrawing patronage, he had compelled the railroad to erect for him an elevator and to give him the use of it free. In that way, he said, he was able to control a large majority of the grain of his neighborhood to the advantage of both himself and the road. I kindly explained that his case was about as flagrant as any I had ever known, and I told him that the provision which I hoped would be incorporated into the bill would give the Government a right of action against him (and people who did as he had done) for twice the rental value of the elevator (about \$2,000 per annum) for a period of five years. It evidently had never occurred to him that he had been the recipient of special favors, secured in a most unjust manner, approaching boycott.

There is one other provision which to my mind is of the greatest importance. I think it is essential

Judicial	that the courts be clothed with authority
Review.	to give the widest possible review of the

proceedings of the Interstate Commerce Commission.

Governments exercise three distinct and quite easily definable functions: legislative, judicial, and executive. The framers of our Constitution intended to separate these, and to make each as independent as

possible. I deem it essential to our existence that encroachments be neither encouraged nor made possible. The Interstate Commerce Commission is an executive tribunal. Its members are removable at the pleasure of the President, and when appointed in vacation their confirmation by the United States Senate is not a prerequisite to the exercise of their official duties.

If any one of several men, whose names will readily suggest themselves to you, were President of the United States, and should announce that in his opinion the Constitution as respects railroads was a failure, and that in dealing with this great industry he thought the judicial function (determining whether a rate is just or not) and the legislative function (determining what the rate shall be) should be lodged with the executive, so that, through a commission appointed at pleasure and removable at will, he could fix every rate between the seas, there would not be left a sane man on the continent to support the proposition. However radical we may become, it will be well for us to preserve a republic.

Unsatisfactory as the situation is, and bad as it is believed to be by the hysterical, the abolition of our triple form of governmental responsibility would be far worse. This is not the first time when I have found myself in a "frying pan," but I never consent to jump until I have first reached my nose far enough over the edge to discover whether there is any odor of smoke.

Congress should legislate in the constant fear that the wildest fanatic, the most ambitious politician, and the rankest demagogue may some day reach the Presidential chair. If such a man should reach that exalted position, clothed with authority to determine, through a commission created by himself, transportation rates without right of appeal, he could continue himself in office throughout his natural life and name his successor. He could dictate to every railroad the price in financial and political support which they must pay for a compensatory rate; and he could also dictate to the corn belt, the wheat belt, and the cotton belt, and enforce his demands for subservient delegations. Public announcement would not be necessary. There are other and more effective ways of enforcing obedience. I am very confident that Congress will recognize the importance of preserving our three departments of government.

Of course it is conceded that the courts can interfere to prevent confiscation. No act of Congress can rob the courts of their constitutional jurisdiction. There is, however, a very wide range between confiscatory and compensatory rates. It is within this field where all controversy exists relative to judicial review.

There is quite an element—several members at least—in both Houses of Congress who seriously doubt the constitutionality of any law clothing an executive tribunal with authority to make and determine rates, even when

Congress Must
Safeguard
Against Con-
tingent Evils
as Well as
Existing Ones.

A Constitu-
tional Question.

subject to judicial review. That the function of making rates is legislative all admit. Tersely and somewhat inadequately stated the constitutional question involved is, whether Congress can delegate this legislative function to a creature of the executive. I doubt, however, if the question is seriously urged. Some members of the Senate have convictions deep enough and the necessary courage to want to go on record. But they are not likely to urge that phase of the question. It is certainly wiser to pass the bill and leave its determining to the courts, where it rightly belongs.

I am very strongly of the opinion that railroads and shippers each overestimate the importance of the pending bill. I do not believe the Interstate Commerce Commission, uninfluenced by politics, will ever fix a lower average of rates than are now charged. If I am correct in this then railroads have slight damage to fear, and shippers comparatively little benefit to anticipate. I base this opinion upon the fact that I have seldom seen even an indignant shipper who complained of the rate, except in comparison with the rate which some one else had paid or was supposed to have paid. The rate *per se* is usually unobjectionable.

Importance of
Bill May Be
Overestimated.

If the Interstate Commerce Commission shall ever undertake the task of establishing freight rates for the entire country, we of the Mississippi Valley will have great cause for alarm. If I believed the enactment of

Mississippi
Valley
Interests.

the pending measure would lead to such an attempt by the Commission, I should deplore its passage.

In the determination of the freight rates many intricate questions must be solved in the exercise of a sound discretion. If the Commission should undertake to do this I fear it would find it convenient to establish some scale or standard—some uniform yardstick—and the standard most likely to be adopted would be distance. If the rates throughout the country were determined alone by distance the central West and the Pacific coast would seriously suffer. At present these portions of the country send their produce to market at a much lower rate per mile than the people of the Eastern States. Then, again, if the actual cost of transportation was made the determining factor, results would be quite as disastrous, and many of our industries would have to be abandoned. For instance, the present freight rate on a carload of wheat from a certain Missouri River point to Chicago is \$85; on a carload of grain, \$60; on a carload of cattle, \$51.70; on a carload of hogs, \$33.75, and on a carload of hay, \$33.25. If shippers of grain should appear before the Interstate Commerce Commission and urge that the actual cost of hauling a carload of wheat was no more than the cost of a carload of hay, the Commission, to be consistent, would have to follow the rule it laid down in the famous packing-house cases, and growing hay in Iowa for shipment to the Eastern market would be as profitless as the business of packing meat in the interior towns of the State.

It seems to me that the following is the only policy on which the country can be developed:

A railway extending through a given territory passes a stone quarry, a coal measure, through an agricultural district, to a water power.

A Policy
Proposed.

The rate on the several commodities produced along the line of road should not be all that the traffic will bear, but in proportion to what the traffic will bear. The rate on each product should be sufficiently low to insure the opening of the quarry, the development of the coal mine, the tillage of the farms, the harvesting of the hay, the improvement of the water power; and out of the aggregate the road should realize a fair share of the unearned profit which inures to every industry made possible by the existence of the road. In the practical solution of the problem, it might be necessary to haul hay and stone at an actual loss and make this up on some other commodity. The development of the country would afford ample justification, and every industry would be benefited by the policy.

Much has been said in a general way against the excessive rates charged by railroads, though, as I say, few shippers whom I have met have criticised rates in detail. In what percentage they can be safely reduced I have neither knowledge nor information sufficient to justify an opinion. I do know, however, that they have been very materially reduced in my time. When I located at Denison it cost sixty-two and a half cents to take a bushel of wheat from Missouri River points to

As to Excessive Rates.

Liverpool. This service is now rendered for approximately twenty cents, and I think a little below.

The first piece of real estate I ever owned was one half interest in the John Trumm quarter section, which you know very well. My former Watered Stock. partner and I bought it at \$3 per acre. We improved it and rented it at about ten per cent of what it had cost us, and soon thereafter sold it to Mr. Trumm. The land, as you know, is no more productive now than it was in 1879; but the present owner has watered the stock to such an extent that I dare say he will not rent it for less than will yield reasonable returns on \$75 per acre. The original cost of the land from the Government was \$1.25 per acre. Barring improvements, all the rest is water. We sold it for \$12.50 per acre. That was the first money I ever made that I did not earn in the hardest way. It was the first water, so to speak, I had ever tasted, and I confess it tasted good to me. I wished we had bought a half section.

When Mr. Trumm came in to buy that land, had he said to me: "Mr. Shaw, the country is now sparsely settled; if I buy this tract of land and the population multiplies, and commerce increases and the land advances in value, to whom will belong the unearned increment?" I should have promptly told him: "It will belong to you. I recommend this land to you, sir, not only as a home, an opportunity to make a livelihood, but also as a speculation." If he had said to me: "But if I do not buy the land I shall probably invest my money in the Chicago, Mil-

waukee & St. Paul Railroad that is just being projected. If the population multiplies, and commerce increases and the railroad advances in value, to whom will the unearned increment belong?" In the face of the then existing public sentiment, which was quite different from what it is now, I should have encouraged him to believe that if the railway venture proved a success he would be entitled to some profit beyond reasonable interest. I might have reminded him that the early attempts to build a railroad across Iowa resulted in the loss of every dollar invested. I probably would have told him that he was taking far greater risk in investing in railroads than in buying land, but that if he succeeded he would probably make greater profit. In this I might have spoken unwisely and ill-advisedly.

I do not believe that any man ever invested money in a railroad crossing the State of Iowa and realized one half the actual annual return or one fourth of the ultimate profits which would have followed had the same money been invested in unimproved farm lands.

You will recall a previous governor of our State who owned until recently, and perhaps still owns, a very large tract in Kossuth County. I would risk the expense incident to having an expert accountant examine the books of any railroad crossing the State, and the books of the ex-governor, on the proposition that the taxes on the governor's land have not equaled one half of the taxes on an equal railway investment, and that the

returns on the land have been three times those of an equal investment in any railway crossing our State.

The aggregate accumulated wealth of this country approximates one hundred billion. Fully three

Unearned fourths of this inconceivable sum is un-
Increment. earned increment. What did the forests originally cost? What was the actual investment in that coal measure? What did those city lots cost the man who surveyed and plotted the town? Barring taxes, improvements made from sources other than returns therefrom, everything beyond first cost is unearned. In common parlance it is water—it is velvet.

You will have to be careful here, or you will misunderstand me. It will not do to allow transportation companies to fix and determine freight and passenger rates without some just supervision; nor is it fair to demand that money invested in these necessary industries (without which our investments in farm lands, forests, quarries, and mines would be unprofitable) shall yield only minimum returns. Somewhere between the extremes of capitalistic greed and populist prejudice lies the sane line for those to pursue who can be moved by neither of these considerations.

Unfortunately, the question cannot be solved with the lead pencil. No one can sit down and com-

Share the pute what share of this seventy-five bil-
Profit. lions of unearned wealth shall be apportioned to railroads, what share to coal mines, forests, farm lands, town lots, etc. In a spirit of cordial good feeling, however, toward every man who has contrib-

uted to the development of this country, laws must be enacted that will insure to each a reasonable percentage of what no one has earned. Give him who buys a forest and cuts the timber some profit beyond a reasonable rate of interest, and the same to him who develops a coal mine, and the same liberal spirit should, in my judgment, be accorded to those who have constructed and now maintain our wonderful network of railways, many of which would never have been built but for men possessing more energy, more enterprise, more foresight, and more courage than ever dominated the one who dictates this letter.

Thus far I have not touched what I conceive to be the underlying evil of the transportation system.

A common carrier should be a *common carrier* in the broadest sense of that term. Common
Carriers.

He should carry for all alike and on equal terms. Until recently it was customary for the merchant to sell to different customers at different prices and on different terms. Everybody did business on the best terms he could get, and the spirit of favoritism manifested itself in every branch of business. Professional men had no regular scale of prices. If benevolently minded they charged what they thought their clients or patients could afford to pay, and if otherwise minded what they thought they could collect.

I remember very well when the merchants and shippers in our town sought, and most of them received, what they believed to be special Special
Rates. rates. Very likely they all paid the same, but each was satisfied so long as he thought he was

getting better terms than his competitor. We have largely outgrown this policy, and the reputable merchant keeps a one-priced store, and the common carrier must, and the American people will see to it that it does, carry for all alike. Whether one man prospers and another man fails in business is none of the particular concern of the common carrier.

Admittedly, however, the proposed rate bills have little, if anything, to do with that branch of the question. This phase is pretty fully covered in the so-called Elkins Bill, which passed without special recommendation, in response to no particular demand, and practically without notice that such a bill was pending. A few jibes were hurled at its author on the assumption that the bill must be bad because it bore the name of a man who had been interested in railroads. Had the people known that its author had probably suffered more from unjust railway discrimination than any other man in either branch of Congress, a different feeling might have prevailed.

As yet nothing has been done under the Elkins Bill, but, unless I am a false prophet, it will yet yield fruit of the most cherished kind. In my judgment it is as comprehensive as the Sherman antitrust law. It took the American people ten years and more to learn the comprehensiveness of that wonderful statute. No substantial amendment has been added but more and more efficient and effective has it been found.

The Elkins Bill is of the same general architecture. It does not specify so much the things which may not be done, but it does distinctly provide that nothing shall be done the logic of which so much as squints at discrimination or favoritism. It then opens the courts to the humblest complainants, gives judges authority to set private litigation aside and to grant summary hearings. Then, on appeal, the case is jumped past the Circuit Court of Appeals to the Supreme Court, and there advanced on the calendar, to the end that the most speedy adjudication shall be had.

Averse to
Favoritism.

A mere postal card from a complainant, addressed to the Interstate Commerce Commission, stating in the most vague and informal way that some individual or the people at some point are being discriminated against, is quite sufficient to start the machinery in motion. Thereafter it is the duty of the Commission, the Department of Justice, and the courts to press the matter with all possible dispatch.

There is one other branch of the case that I want to submit, and I would like to know what you think about it. Most of the evils which we have witnessed grow out of the domination of one corporation over another. I believe it is illogical to allow the unnatural person or corporation to transact more than one line of business.

Corporations
Should Not
Control
Corporations.

If it be a bank, it ought not to own and control railroads. If it be a railroad, it ought not to deal in the stock of other railroads. The natural person can

do anything he pleases, and can transact as many kinds of business at the same time as his mental and financial ability will warrant. If the unnatural person, the corporation, be given like prerogatives there are no bounds beyond which aggregated capital may not extend.

I am not yet convinced that it would be wise for the several States, or for the nation within constitutional limits, to forbid one railway securing the control of another by acquiring a majority of its stock, providing it be not a competing or parallel line. Such a law would effectually prevent some well-intentioned and beneficial extensions. Whether the end to be accomplished would compensate for the many evils that such legislation would entail is difficult to determine. Nevertheless, I think the subject is worthy careful consideration.

I will be glad to know what you think of these suggestions. I have expressed them several times, particularly to the Nebraska Bankers' Association, though you may not have seen the speech. It attracted little attention. Those who agree with a public speaker seldom say so; and those who disagree, frequently do so from habit, and their criticisms are usually in general terms and are, therefore, comparatively worthless in determining the real merits of a discussion.

PART VIII
OUR MONEY

XXXIV

SINGLE STANDARD OF VALUE

THE human family learns slowly. It required thousands of years to teach monotheism to one nation. The lids above the seething pots of earth had rattled for centuries before man discovered steam power, and for many years thereafter the world remained in comparative ignorance of the value of that power. Both earth and sky have been charged with electricity from the dawn of creation. Man stood conscious of its existence, in dread of its manifestations, but in ignorance of its nature.

(1) With equally laggard steps the world has moved toward, but has hesitated to embrace, a single standard of value. Nearly everything—cattle, tobacco, iron, leather, shells, copper, silver, gold—has been tried as standards, but not until recent years has the subject been given that careful and scientific investigation necessary to the establishment of a national and international uniformity of standard so essential to the highest and best financial condition.

The family was originally the unit of civilization. Each man was more or less an Ishmaelite. He moved whither he liked, lived as he pleased, and

defended himself as he was able. He had little, if any, intercourse with those about him, and needed no standard of value. What little trafficking he may have found convenient was effected by the exchange of commodities. Subsequently several families joined together for mutual convenience and protection, fortified a castle, defended it, but it remained isolated and independent.

By degrees, through epochs more or less defined, we have advanced past the clan, the tribe, the feudal system, and the State, to the federation of States, and are possibly nearing the time when the nations of earth shall be bound together, not by treaties terminating at fixed periods, but by perpetual union.

Whatever may be our dream, or our hope, or our fear, we have reached the time when international commerce is of recognized importance. We have learned by experience the convenience and practical necessity of the same standard of value in all countries.

We have learned that the laws of trade and the laws of convenience are, in matters temporal, supreme. Seldom has the lawmaking power assumed the initiative with favorable results, and every attempt to circumvent commercial necessity has precipitated disaster.

The great body of English and American civil law is not the result of the inventive genius of statesmen, but it stands a monument to the adaptive versatility of the business mind. That which trade and commerce have found necessary, or most convenient,

Convenience
the Supreme
Law of Trade.

has been made perpetual by legislative enactment and judicial decision. It has been found necessary to guard against harmful tendencies, and to erect many safeguards against the encroachments of business and financial enterprise, "lest one good custom should corrupt the world," but business necessity is nevertheless the test of expediency. Any proposed violation of principles and conditions which experience has proven needful has ever wrought sad havoc along all industrial lines.

When the exchange value of all foreign coins in the currency of our country, and the exchange value of our money in all foreign ports, can be ascertained by simple mathematical computation, based solely upon the relative weight of each standard coin, the greatest possible encouragement to both domestic and foreign commerce is secured. This is now an accomplished fact in all gold standard countries. The merchant from silver or bimetallic States must watch the market quotations of silver, as well as of the commodities in which he proposes to operate, and the possible fluctuation of his own money is sufficient to exclude him from all competitive enterprises.

I recall the first time I ever listened to an eminent orator's advocacy of the free and unlimited coinage of silver. It was in February, Bimetallism. 1896. I remember that a gentleman in the audience asked him: "Do you think that under free and unlimited coinage silver and gold would maintain their parity?" Instantly he responded: "I

don't know, sir, and you will never know until you try; and you are afraid to try, and I dare try."

What was involved in the silver question? The American people listened to prolonged discussions upon the subject. A great school was conducted. Every man became a pupil, and nearly all aspired to teach. I wish to review this class and see how much we have remembered of the underlying principles which have supported all successful financial legislation in the history of nations, and upon which our commerce and industrial prosperity must always rest.

It was proposed that the Government should operate the mints free of charge, so that whoever owned silver bullion could have it manufactured into silver dollars without expense. According to that programme he could bring all he had—bring it by the ton, by carload, by trainload. It could be brought by citizens of the United States and by persons beyond our borders. They could bring it from the mines of America and from all other mines. Any man on earth could bring to the United States mints silver from any source, and in any quantity, for the proposed coinage was to be not only free but also unlimited. The ratio was to be 16 to 1 with gold; that is, each silver dollar was to weigh sixteen times as much as a gold dollar. No other nation was to be asked to coöperate with the United States.

In asking America to coin the unlimited and inexhaustible product of the world's silver mines gratis, and to do it independently and alone, it was urged that the Government now coins gold free and unlim-

ited. That is true. And it was said that if the Government thus coined gold there was no reason why it should not thus coin silver, unless the federal power was in league with the rich and sought to oppress the poor.

Against such political heresy the people may record as a financial maxim the fact that any coin that any government coins free and unlimited will be worth the material of which it is coined. A child can comprehend that. Suppose you bring to the Government a pound of standard gold; that is, gold 900 parts fine. The Government will manufacture it into gold coin for you free, but the coin will be worth no more than the material. A farmer's flour would be worth no more than his wheat if he could have the wheat ground free. Mexican silver is coined practically free, and it is worth the same as bullion.

Coin Values.

It follows then that the silver dollar if coined free and unlimited must contain silver bullion equivalent in value to 25.8 grains of gold, else it will not be of equal value nor circulate at par with gold.

It was, moreover, urged that the parity of the silver dollar is now maintained though it contains less in value than 25.8 grains of gold. That is true; but the coinage is neither free nor unlimited. The Government buys the bullion, retains the profit, and stands pledged to maintain its parity. We have a little copper cent, the material in which is not worth a mill, and yet its parity in limited quantities is easily maintained. But if the Government should open its

mints for the free and unlimited coinage of copper coins of the present size, the people would be able to buy them at about the same price per pound that raw copper now commands.

The same would be true if the Government should coin silver dollars free and unlimited. The public could buy them by the pound as cheap as they could buy silver bullion. What would be the result? Gold would go to a premium; and when gold goes to a premium experience has taught us that it goes out of circulation.

Gold went to a premium in the '60's, and it also went across the sea or into hiding. It went directly out of circulation. We now have considerably over one thousand millions of gold in the United States, and you can get it at the banks for the asking in exchange for any kind of money.

Have you studied the immediate and inevitable results if gold should go to a premium? Grant if you will that our remaining money would be the equivalent of gold in the payment of debts, it would not be its equivalent in purchasing power. During the Civil War the greenback paid the same debt as gold coin, but gold coin purchased twice as much as greenbacks. The Government was able to impart debt-paying power, but in the market it fluctuated in absolute disregard of the nation's fiat. The greenback in purchasing power became the equal of gold only when the Government stood ready to redeem it at par on demand in gold.

Debt-Paying
or, Purchasing
Powers of
Money.

Should gold again go to a premium it would again retire from circulation, as it did in the '60's, and we should thereby lose one billion in round numbers, one third of our circulation. Our silver would circulate in both our home and foreign markets at its bullion value, and its purchasing power would thus be reduced one half. Our paper money would be redeemable in silver, and its purchasing power would necessarily be the equivalent of silver and thus be reduced one half. We would find ourselves in less than thirty days doing business on a monometallic silver basis.

Many people of mature age remember the "Gold Exchange" and the "Gold Board." During the Civil War and down to the first day of January, 1879, when we resumed specie payment and ceased to have a depreciated currency, gold was the subject of speculation.

A Depreciated
Currency and
Gold Specu-
lation.

It was bought and sold on margins as wheat and mess pork and petroleum are. We had two kinds of currency. They were not at par. The speculators on the money market—the speculators, not the banks—crowded gold now up and now down, and every fluctuation in gold caused a fluctuation in the price of nearly everything else.

It was during this period that Wall Street obtained its unenviable reputation. This reputation was caused by the gold broker and gold speculator, and not by the banker.

The possibility of these manipulations in gold

had its root in a depreciated currency. So soon as specie payment was resumed, and all the currency of the country was at par, the "Gold Exchange" locked up and the "Gold Board" dissolved, and they have never opened their shops and never will so long as the parity of our money is maintained.

The word "dollar" divorced from its associations means nothing. We come to know its value when

Gold the Uni- we associate it with its purchasing power,
 versal Standard and its purchasing power is determined
 of Value. by the value of the material of which the

standard dollar is composed. But the coinage of gold, as I have pointed out, does not add to its value, and if all the nations should demonetize gold that metal would still remain "the universal standard of value"—"the touchstone of measurement."

The business world would continue, as it has for generations, to measure its transactions in that one metal. Mexico does its foreign business in gold. Our coinage laws provide for the casting and stamping of ingots of gold which are used in large transactions and for export and import. Our mintage does little more for gold than to certify its fineness and its weight. All large transactions in gold are conducted by weight and not by count.

How much gold is needed to do our business? Just enough for convenience in measuring and determining the value of our currency; enough for redemption purposes; and enough to accommodate those who desire to hoard it.

How many fifty-pound standard weights, such as

are used on the larger class of scales for weighing stock and produce, is it necessary to have? They are used to balance the scales and to keep the pound and ton from fluctuating. Just enough of these weights are essential to accommodate the business. A man's cattle will weigh no more if the weighmaster has two or a dozen of these standards than if he has one. It is essential that he have one, and that this one is of the same weight as those in the market where the cattle were bought. If this weight fluctuate, no man would be safe in buying cattle in one town and selling them in another.

Most of the arguments in the past for the proposed change in our monetary system proceeded upon the theory that the money of the United States balances in value all other property of the country.

An eminent orator declared again and again that the price of all commodities is balanced by the volume of the nation's standard money. In *The Quantitative Theory*, 1897, in a speech to which I listened, he admitted that the price of wheat had advanced, but declared with reiteration that the price of all other commodities could not advance, for there would not be enough money to go round.

If I understood the distinguished orator, his proposition was that we cannot have high-priced wheat and high-priced corn and high-priced cattle and high-priced labor and high-priced groceries, dry goods, and everything else all at one time, because there is not money enough to go round. My farmer friends present have probably noticed how high-

priced wheat makes money scarce. If such teachings were correct, high wages would consume so much money that there would be none with which to buy food, and the wage earner would starve.

His argument assumed that the money is exhausted as soon as it is used in the purchase of wheat, and cannot be used in the purchase of corn. He said that he never claimed to be a precocious child, but that he could not remember when he did not know that when one end of the teeter board went up the other end went down. He said the teeter board represented the principle of the question—property on one end and money on the other.

He said it was as though we had had two piles of wheat, just enough in the aggregate to feed the world. Burn one pile, says the great rhetorician, and three things will take place: first, the remaining pile will double in value; second, the man who owns it will be benefited; third, he will be glad.

At the old-time circus they used to place twenty men in a circle. Number one would say to number two, "I owe you two dollars; if I had the money I would pay you"; number two would say the same to number three; number three would say the same to number four, and so on, and number twenty would say to number one, "I owe you two dollars; if I had the money I would pay you." Here is forty dollars of debt and no money. Number one takes a dollar from his pocket, and says to number two, "I have one dollar; give me credit on account." Number two gives it to number three, and so on, and number

twenty gives it back to number one. Then number one says to number two, "I have just received another dollar; I did not expect one so soon." This pays the bill. Number two gives it to number three, and so on, and number twenty gives it back to one. Forty dollars of debt has been liquidated and number one has his dollar back. So, if our great rhetorician's familiar illustration is correct, you could stand twenty hungry men in a circle, each needing two slices of bread to satisfy his hunger. By passing one slice of bread around twice, each man would be able to say, "Thank you, that is plenty," and you would have your original slice of bread still unconsumed.

The nominee for the presidency of several conventions does not know the difference, or, knowing, withholds from his audience the distinction, between what is needed for consumption and what is wanted for exchange. What is needed for consumption goes out of existence with the once using, while that which is wanted for exchange goes on and on forever unchanged and as good as new.

The controversy has brought the nation to the vital conclusion that it can have one, and only one, standard of value. It has required some time to learn this, but it is well worth the while if we have learned it so well as never again to call it in question.

—SIOUX CITY, 1897.

XXXV

POLITICAL CONSISTENCY IN THINGS FINANCIAL

IF an intelligent stranger of a philosophical turn of mind were to be suddenly thrust into the midst of a self-governing and self-governed people, he would very likely evolve some conclusions about as follows: He would expect that some of these self-governing and self-governed people would, in most instances, intuitively reach right conclusions concerning governmental measures and policies. He would expect that others would, intuitively, entertain erroneous and false notions and ideas concerning governmental measures and policies. He would expect that others, after careful consideration and study, would generally arrive at correct conclusions; while increased study and consideration on the part of others would only intensify their erroneous views. Assuming our stranger to know something of human nature, he must realize that some people are generally right, some people are generally wrong, some people, if given time enough, will reach correct results, and others the more time they have and the more they study the more thoroughly wrong they become.

Divergent
Views on
Governmental
Policy.

Our intelligent and philosophical stranger would also expect the people who are generally right, and those who in time get right, to coöperate in the great work of self-government. He would also expect those who are intuitively wrong, and those who are not helped by study and research, to coöperate in opposing the policies proposed and advocated by the others. He would reach these conclusions without reflecting in the least upon either the integrity or the intelligence of any. He would, of course, know that there would be many exceptions. He would expect that some very sound and very intelligent, as distinguished from very wise, people would affiliate with the one class or the other, not always from principle, but sometimes in the hope of leadership or other selfish end, or because of ancestry and environment; or, having once become identified with the one company or the other, they would remain regular, if for no other reason than to appear consistent. If our philosophical stranger were to remain very long amid these self-governing and self-governed people, he would learn by observation that these deductions were correct.

No one has a right to claim for the Republican Party that all of its adherents have intuitively and primarily been right on every proposition. Neither has it a right to claim that each and all of its political opponents have been intuitively and primarily wrong on all propositions. But the Republican Party has the right to claim, and does claim, that the consensus of mature Republican judgment has

been reasonably sound and measurably consistent. It also has a right to claim, and does claim, that the consensus of opposing opinion has usually been wrong, and if not wrong primarily it has become wrong after mature deliberation, and that it has seldom been consistent with itself for any great number of consecutive years.

In proof of these logical, and I hope not altogether unphilosophical, propositions, I have time to refer to the record of the two principal parties on only one general subject. There is no question so essential to the prosperity and commercial advancement of a people as sound financial policies. Great Britain, Germany, France, and most commercial countries of Europe have great central government banks, such as the "Bank of England," the "Imperial Bank of Germany," the "Bank of France," etc. These institutions, under appropriate legislative restrictions, issue currency (as distinguished from coin) for the use of the people, and therefore in aid of commerce.

In 1817 the United States Bank was chartered, and in 1832 a bill to renew its charter passed both
Attempts at
a Uniform
Currency. houses of Congress, but was vetoed by President Jackson. Upon this one veto, more than upon any other single act of his administration, the Democratic Party rests the fame of this patron saint of the party. Having killed what was designed to be something analogous to the Bank of England and the Bank of France, one would expect a recommendation of something in its place;

but General Jackson recommended nothing. In the absence of a recommendation the then Democratic Congress might, with propriety, have evolved a financial scheme, but it did not.

When the Republican Party came into power it evolved a plan. Instead of creating a great central government bank patterned after European institutions, it authorized a large number of national banks, placed them under the supervision of the Treasury Department, and gave them authority to issue redeemable currency under appropriate safeguards and restrictions. Without claiming that the national-banking act is perfect, or that our currency system is free from objection, I think the world unites in the verdict that it is, all things considered, very good indeed. For its existence the people are indebted to the Democratic Party for an aggregate of only three votes in the two houses of Congress. I cite the fact as an illustration that the consensus of mature Republican judgment on banking and currency is reasonably sound, and that the consensus of mature judgment of the opposition party on the same great question is unsound, inconsistent, and also indefinite. Our philosophical stranger, having tarried awhile in this country, might possibly cite the attitude of the Democratic Party on banking and currency in proof of his original deduction that some bodies of affiliated people are not materially aided by observation, or study, or experience.

There being no authorized government bank during Democratic supremacy in which the revenues

of the Government could be appropriately kept, it became necessary to establish subtreasuries, which was done in 1846. Such credit as is due any-
The Independent Treasury. one for the original creation of subtreasuries, for the segregation of whatever revenues the Government may collect, is due the Democratic Party, but in criticism of that party I cite the fact that no provision was ever made by a Democratic Congress, and, so far as I can discover, no recommendation was ever submitted by a Democratic President, to authorize the deposit of public moneys in any class or kind of banks. In other words, our opponents developed no plan whatever, but simply allowed the Government to collect its revenues, and, having thus taken the funds out of circulation, kept them in its strong box out of reach of the people.

It is due President Jackson, however, to say that, following his veto of the bill to renew the charter of the Bank of the United States, he did deposit public money in State banks, but he did so without any Act of Congress authorizing it, and he did it without taking security of any kind. But this was in 1834, before the creation of subtreasuries.

The first and only provision for the return, to the channels of trade, of the money collected by the Government and not immediately needed was passed by a Republican Congress, and fifty-three Democrats voted against the measure, and only three in its favor. The consensus of Democratic opinion, after fifty years of experience, was manifestly wrong.

Having destroyed the United States Bank, and having failed to provide a substitute, the Democratic Party allowed the country to drift as it would. No Act of Congress, until 1861, ever authorized the issuance of a single dollar of currency by the Government, and, barring the charters authorizing the two United States banks, no Act of Congress prior to 1863 ever authorized the issuance of a dollar of currency by any bank. The same act which authorized the issuance of national-bank currency was the first Act of Congress that ever placed any restriction upon State banks or industrial corporations or private firms from issuing currency of any kind or character, and in any volume, which the people could be induced to accept.

Having no financial policy except a strong box in which the revenues of the Government were to be kept, out of the reach of the people, the country was allowed to take care of itself. I suppose the reason for this and for the repeated demands for the repeal of parts or all of the national-banking act is the Democratic fiction against federal control. The absence of federal control, as represented in Government supervision of banks, means "wildcat money" of the wildest and fiercest species.

The recollection of the experiences of the people, under this Democratic no-policy period, still seems to be an insurmountable objection within both parties to the issuance even of a limited volume of credit currency by banks directly under the supervision of the Government, with every possible safeguard, and

with ample provision for its redemption in gold safeguarded and guaranteed by the Government. In other words, the experience in those Democratic times was so appalling, and the embargo upon commerce so great, and the chains which retarded our development were so heavy, so cruel, and so unbreakable, that the American people, even at this late date, shudder at the suggestion of anything that recalls the past.

The Act of Congress under which national banks are chartered, and which authorizes the issuance of national-bank notes secured by a deposit of government bonds, received the negative vote of ninety per cent of the Democrats in both Houses.

The national-banking act taxes out of existence all State and private bank currency. It levies a ten per cent tax upon everything, except national-bank notes, designed to circulate as money. The opposition, in its platform of 1892, demanded the repeal of this ten per cent tax, and the consequent return to the non-paternal policy of letting anybody and everybody issue anything and everything that the people can be induced to accept. In harmony with this platform, in 1900, pending the bill to establish the gold standard, the Democrats in the Senate proposed an amendment removing this tax upon private and corporation issues of currency and supported it 19 to 1.

In 1896 the Democratic Party denounced the "issuance of notes intended to circulate as money by national banks as in derogation of the Constitution,"

and in 1900 it demanded "the retirement of national-bank notes as fast as government paper or silver certificates can be substituted for them." These are the last official utterances of the party on the subject, and represent the attitude of the opposition on the great question of banking and currency. Our philosophical stranger, if still in the country, would possibly cite this in proof of his original deduction that the longer some people study a question the more thoroughly wrong they become.

The Republican Party, when it came into power, found the Treasury depleted, government credit practically exhausted, and no banks under *Greenbacks* and government supervision, and therefore *Resumption*. no authorized and stable currency, as distinguished from coin, in the hands of the people. During the Civil War, which immediately followed Republican accession, the Government, in addition to the issuance of bonds, made a forced loan of \$400,000,000 in United States notes, commonly called greenbacks. These notes, though not expressly redeemable in gold, were always recognized by the party responsible for their issuance, and by the business community generally, as a debt, for the ultimate redemption of which in that metal the Government stood morally bound.

Not being redeemable on demand, these notes fluctuated in current value as the prospect of actual redemption appeared more or less remote. Gold, being nominally at a premium, was out of circulation, and the country did its business on a fluctuating cur-

rency. After protracted discussion the Republican Party recognized the necessity of resuming specie payment, and in 1875 passed the well-known Resumption Act. By this act the Secretary of the Treasury was authorized to sell bonds to replenish the Treasury, and he was directed, from and after January 1, 1879, to redeem these United States notes in coin on demand.

The vote by which this Resumption Act was passed was strictly partisan. Every Republican voted for it and every Democrat against it.

The Democratic national platform the next year demanded the repeal of the Resumption Act, and, in harmony with the platform, the Democratic House, in 1877, actually passed a bill repealing it. The Republican Senate passed a substitute, which was sent to the House, and laid on the Speaker's table until after the Resumption Act actually went into effect. Shortly after resumption had become an accomplished fact, General Ewing, a leading opposition Congressman from Ohio, sought to amend the bill by inserting a provision denying the Secretary of the Treasury the power to borrow money to sustain resumption. General Garfield moved to lay the whole matter on the table, and the motion prevailed against 107 Democratic votes. It thus appears that the intuitive judgment of the opposition on the subject of resumption of specie payment was wrong at the time the resumption act was passed, and that the consensus of mature Democratic judgment became confirmed in its error after the act

went into effect and as soon as greenbacks were worth their face in gold.

Agitation for the free and unlimited coinage of silver began as early as 1877, and since that date the sentiment of Congress, in one way or another, has been expressed on no less than ten occasions. Neither party can claim to have been originally united either for or against the proposition, though every vote taken shows a larger proportion of Democrats than Republicans favoring free and unlimited coinage. The bill to repeal the purchasing clause of the so-called Sherman Act, for instance, though passed by a Democratic Congress, and on the recommendation of a Democratic President, nevertheless received the support of seventy-eight per cent of the Republicans who voted on the question, and only sixty-one per cent of the Democrats who voted. The bill establishing the gold standard in 1900 had an aggregate vote in its favor of 235, only 12 of whom were Democrats, and an aggregate of 179 votes against it, only 1 of whom was a Republican; while a free-silver amendment to the bill was supported 23 to 2 by the Democrats of the Senate.

Thus gradually the sentiment in favor of the single gold standard within the Republican Party increased, and the sentiment in the opposition party correspondingly diminished. When the issue was fairly presented in 1896, a new alignment occurred. Those who intuitively recognized the logical impossibility of

Gold
Standard.

Party Align-
ments on the
Currency
Question.

the maintenance of parity between coins of different metals when both are coined free of expense to the owner of the bullion, and in unlimited quantity whatever the ratio, together with those who by study and research reached the same conclusion, and those who profited by the historic fact that no country ever succeeded in maintaining, for a period of six months at a time, the parity in metallic value of coin of different material, coined freely and unlimitedly, gradually allied themselves with the Republican Party; while those whose intuitions were wrong, and whose research confirmed them in their error, allied themselves with the opposite party.

This new alignment may or may not prove permanent, but it tends to establish one of the propositions which I laid down in the beginning, that the consensus of mature judgment of the Republican Party is usually right, and that the consensus of mature judgment of the Democratic Party is usually wrong. On this subject the Republican Party wobbled for a time, and stumbled once or twice, but, as in other instances, ultimately regained its equilibrium. The Democratic Party, on the contrary, after wobbling for a time, and stumbling frequently, finally expressed its mature judgment in its Chicago platform of 1896, which it reaffirmed in 1900, and neither retracted nor apologized for in 1904.

—COLLEGE POINT, L. I., JULY, 1904.

XXXVI

VIRTUES AND DEFECTS OF OUR CURRENCY SYSTEM

THE fact, and I think it is a fact, that the United States has the best currency in the world does not imply that the currency system of the United States is perfect or that it cannot be improved. It is as safe as any system in the world because it is established on the only safe basis known to man—the gold standard. Its safety is not simply because the dollar contains one hundred cents. If we were on a silver basis the dollar would still contain one hundred cents, but they would be silver cents.

The United States dollar is worth not only one hundred cents, but one hundred gold cents. The dollar is worth 25.8 grains of gold. That measures the market value of our dollar. All Exchange-able for the Best. Whatever 25.8 grains of gold will buy our dollar will buy, and it is worth precisely the same uncoined as coined, for the Government stands ready to coin it free and in unlimited quantities.

Then, in addition, every dollar of our currency, gold certificates, silver, silver certificates, United States notes, Treasury notes, national-bank notes,

subsidiary silver, nickel, and copper coins, is redeemable in or exchangeable for gold at the will of the holder. This fixes the stability of our currency. Its value does not and cannot fluctuate.

I grant that there is no express statute for the exchange of gold for silver certificates or for silver itself. Silver certificates are of course redeemable in silver. Silver certificates are simply warehouse receipts for the number of silver dollars mentioned in the receipt, and on the return thereof the coin can be demanded. But the law expressly provides that the Secretary of the Treasury shall maintain the parity of all forms of money coined or issued by the Government. The only way to make a silver dollar, the metallic value of which is only about fifty cents, worth one hundred cents in gold is to give gold in exchange for the silver whensoever and by whomsoever demanded.

On this proposition the record has been made so that subsequent Secretaries of the Treasury for all time, whosoever they may be and whatsoever party they may represent, will find it necessary to overrule the decision of at least one predecessor before he can refuse gold in exchange for silver, and until such refusal silver will remain at par. There being only one way to preserve parity in time of pressure, the best way to avoid a time of pressure is to make public the Government's intention to redeem in gold at all times.

Thus, all forms of lawful money are exchangeable for gold, and national bank notes are redeem-

Parity Main-
tained by
Exchanging
Gold for Silver.

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Thus, all forms of lawful money are exchangeable for gold, and national bank notes are redeem-

able in lawful money. These provisions make our system absolutely safe, and no man need look the second time at any form of our circulating medium to discover its actual or exchangeable value. It is, moreover, more convenient than most other systems because of being a decimal or metric system. It is not necessary to carry a lightning calculator in order to make change.

The system is not perfect, largely because it is nonelastic. It fails to respond in volume to the changing needs of the seasons and of localities. Attention has been called to the nonelastic character of our currency many times and by many people, but that there will be no further currency legislation until we shall have experienced a panic occasioned by this want of elasticity, I am fully convinced. The country does not appreciate the danger, and until the danger is fully understood no remedy will be applied. We came nearer such a panic, September 30, 1902, than most people know. The fact that we then escaped does not raise a presumption that we will always escape. A glaring defect at a vital point will some time, soon or late, assert itself. Meantime a remedy should be discovered, discussed, and, as far as possible, agreed upon, so that it may be promptly applied when the people are ready for it.

Let me define this defect more specifically. Annually, we have an excess of money during the spring and summer months. Annually, we pass through a period of anxiety as we approach the period of crop-moving, for annually the

A Panic
Predicted.

The Defect
Defined.

volume of money is relatively insufficient to meet this sudden increase of business.

We do not need and must not have inflation. The average amount of money is, in my judgment, abundant. The difficulty lies in the fact that the volume remains stationary. The condition is as unsatisfactory as it would be for railroads to run the same number of freight trains with the same number of cars on the same schedule of time at all seasons of the year—rumbling along empty in June and overloaded in October. If such a policy were pursued by railroads the unnecessary cars would naturally invite loads of straw and chaff and worthless plunder, and when the time came to use the cars in legitimate business much disturbance would ensue while they were being unloaded and fitted for profitable employment.

Similar conditions occur annually in our currency system. Cheap money during summer months, like cheap cars, invites anything and everything except legitimate business, and when the money is needed in the fall, like the cars, it is occupied, and much disturbance to commerce is occasioned by the unloading. In the language of the "Street" this unloading is called liquidation.

Let me use an illustration. Many of my hearers were reared on a farm, and many of you have led a horse behind a buggy. Those of you who have performed this task have doubtless noticed that when you let the horse out the full length of the halter, be that halter long or short,

Inflation and
Cheap Money
Not Desirable.

An Illustration.

you have experienced some inconvenience in passing rapidly over rough places. You have sometimes felt the knot at the end of the strap. Thus, by experience you have found it convenient to keep some slack to be let out as occasion requires. We now employ every inch of our financial tether all the time, but some fine day the unexpected will cause another acute tension and we will again feel the knot. Fortunate, indeed, we will be if it does not slip through our hand.

Now what shall be the remedy? Shall it be asset currency? In the popular acceptance of that term, I answer, "No!" Asset currency as commonly understood would mean inflation, and inflation we must not have. Asset currency as commonly understood would be supported only by the solvency of the bank of issue. That must not be. No currency must be issued under any circumstances that will cause the holder to look at it twice to discover its exchangeability for gold. Shall it be emergency currency? In the popular acceptance of that term, I answer, "No!"

The United States originates more commerce than any other country, but our chief commercial city is not the world's clearing-house. It ought to be, but it is not. One reason why it is not is the fact that it has sometimes resorted to clearing-house certificates, which is a plea of guilty to an indictment charging bad management locally or bad legislation nationally, and the financial world charges both.

The Remedy.

Clearing-House

Certificates

Create Distrust.

Clearing-house certificates must never be authorized by law. Let those who love our country, and those who conserve her credit, set their faces against such a course with the same intensity as they resisted the free and unlimited coinage of silver. Clearing-house certificates debase our currency with the consent of those who are supposed to be the best financiers in the nation. The free coinage of silver would debase it through political consent. The threat of both, I doubt not, contributes to that distrust which prevents foreign bankers from keeping their international balances in America. Whatever the remedy shall be, it must not advertise our calamity or our extremity.

Among the many remedies suggested none appeal to me so strongly as the authorization of additional national bank circulation. This method involves the right of national banks to increase their circulation in an amount, perhaps equal to fifty per cent of their outstanding volume of government-bond-secured circulation, on which the bank should pay a tax of five or six per cent during the time it is maintained, and the Government in consideration of this tax should guarantee its redemption.

I indorsed this plan not long ago in the second largest city of this nation. The next morning one of the daily papers had interviews from several bankers to the effect that they would not issue currency under ordinary circumstances if taxed at five per cent.

A Heavily
Taxed Supple-
mental Bank
Currency.

Confirmed
by Criticism.

This confirmed my belief that the proposition was wise. It certainly would not result in inflation. Though the right to issue additional circulation were granted, I should be exceedingly glad if it were not exercised for many years. It would demonstrate that we had passed over no very rough places.

This may be called an emergency provision. But it injects into our circulation no new form of money as an element of alarm. By eliminating the one statement on the present bank note, "This note is secured by bonds of the United States," the additional currency could be made identical with that based on Government bonds.

The Comptroller of the Currency and the bank issuing the currency would alone know of its existence. It would not advertise its existence or our extremity, and I can scarcely conceive of any conditions under which it would remain out sixty days. It could be printed and kept ready for issue as occasion might require, and it would be retired, not by gathering up each individual bill, but by a deposit of an equal volume of money with any subtreasury. Then the notes as they came in would be charged against this deposit until it was exhausted, after which redemption and reissue would run on as before.

No Restriction
on its Prompt
Retirement.

To insure prompt and speedy retirement no limit should be placed on the amount of additional circulation that might be retired by the deposit of the currency itself or of lawful money instead.

—BEFORE THE OHIO BANKERS' ASSOCIATION, CLEVELAND,
OHIO, SEPTEMBER, 1905.

CURRENCY REFORM

XXXVII

THE PANIC OF 1907

THE financial and business conditions with which we are confronted have not resulted from crop failures, idle factories, unproductive mines, or dishonest management of business enterprises and financial institutions. They are the logical, and therefore the inevitable, result of several causes.

The American people have been living extravagantly, and this practice has become well-nigh universal, and applies as much to the West as to the East. Boldness in business has also been the rule. In the agricultural States men have purchased lands, paying part cash, and have felt perfectly safe with a mortgage representing fifty per cent of their prospective value. City and suburban property has been purchased in the same way. Others have purchased well-known and high-grade stocks and bonds as investments, and have borrowed a part of the purchase price. Timber, coal lands, and mining enterprises have been capitalized, and every locality, east and west, north and south, has aided in their

flotation. Commercial, industrial, and electric railway enterprises have been projected, and securities thus created have found a ready market in rural as well as in urban communities. Meantime, everyone has denounced the speculator, and none have been more generous of criticism than those most guilty.

While all this is true, I thoroughly believe the country has grown in conservatism during the last few years, and that there are less undigested securities on the market and fewer ill-considered financial and business enterprises in process of projection than at any previous time during the last seven years. Universal prosperity such as we have enjoyed for ten years necessarily develops many venturesome spirits, but the country has certainly been slowing down for at least twelve months. These conditions, therefore, in and of themselves would have been insufficient to produce a panic.

The panic, in my judgment, has been precipitated rather than caused in the same way that the panic of 1893 was precipitated. It has been popular for several years to speak disparagingly of American business men, their methods, and the institutions with which they have been connected. With few exceptions, both the secular and the religious press have vied with magazine writers, Chautauqua lecturers, and ambitious politicians in painting in most somber colors everything American, and in gazetting as unworthy of confidence, quite indiscriminately, American business men. A few most shameful disclosures have been held up quite univer-

Indiscriminate
Criticism.

sally as fair illustrations of conditions generally, instead of exceptions. Threats of criminal prosecutions of unnamed persons on undefined and indefinite charges have been liberally exploited. Naturally these things have had their influence. Universal business confidence cannot be maintained indefinitely in the face of universal denunciation, and when confidence forsakes us there is nothing left on which to rest our business and industrial superstructure.

Lest I be misunderstood, permit me to add: The American people seldom attempt more than one thing at a time, but they do the one thing well. In my judgment no President of the United States has performed the task which the logic of his time has brought to his hands better than has Theodore Roosevelt. The lift toward civic and business righteousness resulting from the policy of strict enforcement of law which has characterized his administration has created, let us hope, an indelible impression which this country will never outgrow. I am equally certain, however, that it will require some years to outgrow the evil effects resulting from much agitation, some ill-considered legislation, and promiscuous threats of prosecutions by those who have been unable to appreciate the President's purposes, and who have therefore sought popularity by imitating the weaker side of his administration. Tell the American people three hundred and sixty-five days in succession that if they make ten unprofitable investments they will be expected to stand the loss, but should they once invest

A Wise
Enforcement
of the Law.

profitably, laws will be promptly enacted limiting their returns, and the American people will cease to invest.

The panic of 1893 was precipitated in precisely the same way. The preceding year was the best we had ever seen, but President Cleveland, The Panic of 1893. with a sincerity of purpose and an honesty of conviction excelled by none, plainly and unequivocally informed the country that the greenback was a great disturber of our financial peace; that the continued purchase of silver was most unwise, and that the then existing tariff laws were vicious in the extreme, and he asked Congress to correct these numerous evils at once and in most drastic fashion. Whether he was right or wrong in his analysis is immaterial, and the question of sincerity does not enter into the equation. The inevitable effect was loss of confidence, and loss of confidence is but another name for panic.

In proof of the assertion that this country was never on as safe and secure a business foundation as it was when the present panic broke in its fury, I cite the fact that our banks, with scarcely an exception, have stood the test, business failures have been few, and receiverships thus far at least have been by no means numerous. In this respect we may congratulate ourselves.

But for the currency famine we ought to recover a fair degree of business and financial health within a few months, and thus avoid multiplied failures. It will take longer to regain The Outlook. normal industrial health. There is more money in

the country than there was six months ago, for we have just imported more than ten carloads of gold. Unfortunately, however, this want of confidence, the existence of which we all recognize, however much we may differ as to its cause, has led the people to withdraw from circulation the probable equivalent of 200 carloads of gold. These withdrawals cannot be forced back into circulation by legislation or decree of court. They will be returned when confidence is restored, and not until then. The people who have withdrawn money own it, and in its future use they will be selfish to the limit of selfishness.

Speaking before the Ohio Bankers' Association on September 28, 1905, I used this language:

"Attention has been called to the nonelastic character of our currency many times and by many people, but that there will be no further currency legislation until we shall have experienced a panic occasioned by this want of elasticity I am fully convinced. The country does not appreciate the danger, and until the danger is fully understood no remedy will be applied. We came nearer such a panic September 30, 1902, than most people know. The fact that we then escaped does not raise a presumption that we will always escape. A glaring defect at a vital point will some time, soon or late, assert itself."

In saying this I did not intend to criticise Congress, for Congress is a public servant and does exactly what the people demand, and it never does more and seldom less. The American people have

been opposed to any new currency feature, and therefore we have a currency good and strong, but non-elastic.

I do not think we need more rapid inflation than we have enjoyed. During the last five years the money in circulation has increased about \$150,000,000 per annum. Thus the volume ever expands, but it has no power of contraction except when the people through fear withdraw from circulation and hoard, and they are now doing this just when money is most needed, and when its presence is imperative.

Much has been said and whole libraries have been written in favor of a large central bank. Those who advocate this plan are, in my opinion, far better statesmen than politicians.

A Central
Bank.

The American people do not want a central bank, and therefore they will never have one. It is idle to discuss the merits of a proposition which the American people do not want, and to which they will not give audience.

The so-called "Canadian" plan has probably about the same number of advocates as the central-bank plan, but again it is well-nigh certain that the people will never consent that our present system be superseded with something radically different.

The Canadian plan is effective only when operated in conjunction with a system of branch banks, and when a substantial portion of the aggregate circulation of the country consists of bank notes. For instance, over forty per cent

The Canadian
System.

of the maximum Canadian circulation is bank notes. This volume of bank notes annually contracts about twenty-five per cent, making a contraction of ten per cent in the aggregate money of the Dominion. Our monetary supply is somewhat in excess of \$3,000,000,000. A possible \$200,000,000 issue of credit currency, patterned as far as may be after that of Canada, as provided in the bill reported by the committee of the lower House of Congress, would swell the aggregate to about \$3,300,000,000. Assuming that this small volume of credit currency would contract twenty-five per cent as in Canada, it would measure only one and one half per cent of our aggregate as against Canada's ten per cent. We would simply deceive ourselves if we thought this would even help to solve the problem of elasticity.

Then, again, Canada has less than forty banks of issue, and no commercial banks except these and their branches. All these central institutions fully understand the advantages of promptly sending the currency of rival institutions in for redemption in order to make room for their own. We have more than 6,000 wholly independent national banks, and twice 6,000 other commercial banks in no way interested in contracting the currency to make room for their own issue, for they issue none. I can see no reason to believe that we would experience a contraction of five per cent even on an issue of credit currency divided among the 6,000 independent institutions, or one third of one per cent of the aggregate.

It is doubtful whether the banks will ever unite on any plan which carries no profit. It may be necessary therefore to concede this possible \$200,000,000 inflation, and it is probable that the country will absorb it without danger. The one thing that interests us is some provision for the unusual—the emergency. Not until we had experienced the present panic have I favored a possible emergency issue in excess of fifty per cent of the bond-secured circulation. In the face of what we are now experiencing, I believe the possible issue should equal at least fifty per cent of the aggregate capital of national banks, or somewhat more than \$400,000,000. Whether \$400,000,000 is now in hoarding no one can tell, but that the entire country could now profitably employ \$400,000,000 additional circulation everyone concedes. That it may be promptly issued when needed and where needed and as promptly retired when the demand therefor ceases is essential.

It is doubtful whether the country will take kindly to a legalized clearing-house certificate. After everything has been said in justification of the present well-nigh universal resort thereto, it must be remembered that its use has not invited money back into circulation, but just the reverse. No sooner was the clearing-house certificate resorted to than people ceased to deposit currency. Merchants are now keeping every dollar of currency they get. They deposit only checks. I fear the same effect would follow a resort to regularly authorized

A Suggestion.

Clearing-House
Certificates.

clearing-house certificates or any other novel and unusual form of currency.

The desire to avoid an element of fear is the controlling reason why I have so many times advocated additional national-bank circulation identical in appearance with the ordinary. If guaranteed by the Government there is no reason why the public should have notice that a stringency has arisen, making resort thereto advisable, not to say necessary. So long as the public needs can be supplied without endangering anyone, no advantage can be gained by suggesting adversity.

Neither do I believe the country will take kindly to any plan which places relief measures solely in the hands of city banks. While there is no animosity between city and country, neither has any conception of the needs of the other, and neither will willingly depend upon the other for deliverance from impending financial dangers.

—BEFORE THE NATIONAL BUSINESS LEAGUE OF AMERICA,
CHICAGO, ILL., NOVEMBER, 1907.

SOME ESSENTIALS

I think I need not elaborate the evils of our currency system. They have been in evidence for many years, and have recently received a most disastrous demonstration. The actual and acknowledged suspension of money payment by all bank-

ing houses in every prominent commercial center, and in many small towns, in the midst of the most prosperous period of our history, and when such institutions are in fact unusually strong, ought to be impossible. Such a thing is unthinkable anywhere except in the United States. Here it is liable to occur at any time, and certain to occur occasionally. Barring provisions for the preservation of the Union, and for the protection against foreign invasion, I do not believe Congress has approached a more important subject since the Government was organized.

On several propositions there ought to be little, if any, difference of opinion :

First: Our present volume of money is adequate for the ordinary demands of business; and, therefore, we do not need and should not have inflation.

Second: The additional or supplemental circulation should be, if possible, identical with some form of money in ordinary and constant use, lest its presence cause alarm, and thus defeat the purpose for which it is authorized.

Third: The relief should be capable of immediate and local application.

Fourth: Its prompt retirement, as soon as the demand therefor ceases, should be insured.

During the last five years the money actually in circulation in the United States has increased approximately one hundred and fifty millions per annum. I believe it unwise, therefore, to provide for any more rapid expansion.

Expansion.

As soon as the New York banks resorted to Clearing-house certificates, and other cities followed her example, every banking institution in the United States became a money hoarder. This was not because there was any doubt of the solvency of the several clearing houses, or of the banks composing them. It was because the announcement that resort to a new kind of currency was found necessary, though the same was intended to be used only as between banks, was recognized as proof of financial extremity. I believe the same effect would be produced by an announcement that the banks in the principal cities had resorted to the issuance of currency based on collateral other than government bonds. They would never issue a new kind of currency except in dire distress and when too late to avert the disaster.

Any issue of notes by the Imperial Bank of Germany in excess of certain reserve requirements is taxed at the rate of five per cent per annum. These notes, however, are identical with the ordinary and untaxed issue, and the customer who receives them never knows that they are in excess of the gold reserve. He may recognize that the rate of interest has been advanced above the normal, but there is no danger signal stamped on the notes themselves.

I thoroughly believe that the presence of any new form of money, which in practice will appear only at intervals of several years, would alarm the country from sea to sea, and convert every bank and every business house into a hoarder of money.

The Treasury Department deposited in national banks during the first eight weeks of the panic about \$65,000,000, taking as security collateral acceptable under the laws of several States for savings bank and insurance company investments. The amount of work necessary to pass upon this great volume of collateral was very large; yet the relief was wholly inadequate. Suppose the Treasury Department had been called to pass upon collaterals consisting of State and municipal bonds sufficient to secure an issue of \$400,000,000. Before the work could be accomplished hundreds of banks would have closed their doors. Government officials are extremely cautious. The rejection of a proposition never causes trouble. Affirmative acts only are investigated and censured. Technical objections are as good as valid ones with the average bureau official.

Suppose the banks of Burlington, Vt.; Portland, Me.; Jackson, Mich.; Madison, Wis.; Des Moines, Iowa; Austin, Texas; Spokane, Wash.; Los Angeles, Cal., needed immediate relief, and should offer municipal bonds issued by cities and towns in their immediate vicinity as security for an issue of a new and distinct kind of money, would they be likely to get this security approved, new plates engraved, and the currency printed and shipped in season to be of any assistance? Among the questions that would have to be passed upon would be the legality of the bonds offered, and this would involve the ascertainment of the assessed value of the cities and towns issuing the same, and the amount of the outstanding indebted-

ness as well as the regularity of all proceedings. The banks in all these cities would be in the hands of receivers months, yes, years, before the Treasury Department could pass upon the questions involved, not to mention the additional months of delay in having new plates engraved and the currency printed.

Our present national bank note is unique. Secretary Chase borrowed from the New York and Wisconsin statutes a somewhat novel plan when he proposed that the interest-bearing obligations of the Government should be deposited in trust, and that participation receipts issued against the same and bearing no interest should circulate as money. The Government had before that resorted to enforced loans, and had compelled the people to accept its noninterest-bearing obligations, commonly called greenbacks, payable at the pleasure of the Government. Something more stable in current value was necessary, and it was also necessary to insure a market for the bonds. The national bank note secured by bonds met both these requirements. It must be admitted, however, that while every commercial nation in the world has interest-bearing obligations, none has followed the example of the United States. With the exception of Cuba, and possibly one or two other small republics, we have no imitators. Bond-secured circulation, therefore, does not enjoy the approval of the commercial world.

No bond-secured circulation can be elastic. It is

possible, and in fact probable, that the national banks of New York City, Boston, Philadelphia, Chicago, and possibly one or two other cities, though I do not know where they are located, could borrow the necessary State and high-class railroad and municipal bonds on which to secure supplemental circulation in time of stringency. I know, however, that the banks in some of the cities above named have had difficulty within the past few months in borrowing bonds with which to secure deposits of public money. It will be recognized that a deposit of \$100,000 of public money secured by bonds costing \$110,000 is of no advantage, if the bank receiving the deposit is compelled to buy the bonds, and the right to issue \$100,000 in bank notes unavailable as reserve would be no boon to a bank that should find it necessary to purchase the bonds at a somewhat larger sum in reserve money.

If anyone will take occasion to examine, he will discover that the banks with available bonds which can be used as the basis for supplemental circulation are very few indeed. Those that do have them hold them as quick assets to be sold as the needs of business may require. The right to hypothecate them as security for circulation would be of no advantage when their market value in reserve money is in excess of the amount of bank notes obtainable thereon. Let no one deceive himself into the belief that the right to issue supplemental high-taxed currency secured by a deposit of State, municipal, or railroad bonds would be of any advantage except to

such institutions as can borrow the bonds on their own credit or on a pledge of other collateral. To ninety-nine per cent of the banks it would be unavailable.

I have never insisted that the German plan is the only one by which the element of elasticity can be added to our currency, but I do believe that there are less objections to it than to any other. It would not afford inflation, for the tax would be prohibitive under normal conditions. The supplemental currency would be identical in form with the present national bank note. It could be issued immediately and wherever the demand existed, for it would be in the vaults of the bank ready to be issued on receipt of permission, by telegraph if necessary, from the Comptroller of the Currency. It would promptly retire when the demand therefor ceased; for no bank would maintain it longer than necessary if adequately taxed.

The redemption in gold of the present national bank note is now guaranteed by the Government, for it is secured by the interest-bearing obligation of the Government payable in gold. The Government redeems these notes as they are presented, though issued by an institution insolvent, and in the hands of a receiver at the time of redemption.

By substituting on the national bank note the words "this note is guaranteed by the Government," in lieu of the words "this note is secured by bonds of the United States," the bond-secured and the

credit-secured issue notes could be made identical in form. Any amount in excess of the par value of the bonds deposited would be subject to the higher tax, precisely as any excess of the gold reserve requirement in the vaults of the Imperial Bank of Germany is taxed at the higher rate. The public would not care whether they were in excess of or within the limit of the bonds deposited. That the notes are good and redeemable in gold is all that anyone would care to know. The amount of tax due the Government would be adjusted from the books, just as it is at the Imperial Bank of Germany.

A requirement that the banks must obtain permission from the Comptroller before issuing in excess of the par value of the bonds on deposit, and another that the same must be re-
Safeguards.
tired within ninety days or when directed, would afford all reasonable protection against issues by insolvent concerns.

Suppose some bank in Texas should ask permission to issue supplemental circulation in July. Instead of a favorable reply, it would probably receive a visit from the bank examiner, for the Comptroller would recognize the absence of any general condition justifying the request. Suppose a lone bank, somewhere in Illinois, should fail to retire its supplemental circulation when the rate of interest dropped to normal, it certainly would receive instructions to retire at once; and a failure to obey would raise a presumption of internal conditions demanding the presence of a bank examiner.

Manifestly, the notes when issued could not be promptly gathered together for retirement, but a deposit of an equal amount of money with any sub-treasury would contract the currency as promptly as the actual retirement of the notes themselves, and against this deposit the notes would be charged as they came in, though they remained in actual circulation for years. Some would be lost or destroyed by fire, but the Government would receive all the benefits, as it now profits by the destruction of the present issue of national bank notes.

So much has been said in favor of a large central bank, patterned after the Bank of England, the Imperial Bank of Germany, or the Bank of France, that I am constrained to submit some observations with reference to such a plan.

These institutions discount commercial paper and issue their notes therefor. This commercial paper usually and well-nigh always consists of drafts drawn against actual values by vendors and accepted by vendees, to which is added the indorsement of one or more banks. Where in the United States can such commercial paper be obtained?

The United States is not only great in area and in resources, but its industries are diversified to such an extent that current bankable paper in one locality is frequently unacceptable in another. In New York City the best known bankable paper is collateral notes, secured by the hypothecation of well-selected stock-exchange securities. Such paper would be rejected by many of the commercial banks of the United

States. The banks of Iowa, for example, consider the note of a farmer who owns his land, and whose actual condition is known to all men, as absolutely good, and the institutions out there seldom ask anything better than the absolute. In some localities cattle paper is the only prime paper; in other localities, grain; in other places, bills of lading are current and considered prime security. What help need a bank in the central West expect from a central bank authorized to issue its notes against commercial paper, such as is acceptable by the central banks of Europe?

I cannot illustrate the advantages of the German plan when applied to our system better than to cite the experience of the banks in my home An town during the present panic: Denison Illustration. is favored with a private bank, a State bank, and a national bank, each strong and conservative. The first information which reached these institutions that there was trouble ahead was the announcement that New York, Chicago, and several other cities had resorted to clearing-house certificates. Remembering 1893, they knew that they were absolutely shut off from reënforcement from any source. They each had money in New York, Chicago, and in at least one other city, but they knew they could not get a dollar of it. They held a council of war, and agreed that an attack on one should be an attack on all, and commenced to hoard to the utmost of their ability.

Suppose the president of the First National Bank had said to the other two, I have the right under the law, with the consent of the Comptroller of the Cur-

rency, to issue an amount equal to twenty-five per cent of my capital in supplemental circulation, subject to a tax at the rate of five per cent per annum, and I have the currency printed and in my vaults. The Comptroller has never found anything in connection with my institution to criticise, so I feel sure he will grant the permission. I have just wired for the permit. I want to assure you that such an announcement would have been a great preventive of insomnia among the management of those three institutions, and it would also have prevented hoarding, and thus benefited the entire community.

I am interested in three banks in my State, and I have recently had occasion to write them all congratulating them that in the midst of this period of money stringency they have succeeded in withdrawing from circulation some thousands of dollars. It is a great deal better to congratulate for obeying the first law of nature than to scold because their patriotism had been insufficient to lead them to pay out what money they had, and take the chances of a receiver. I can think of no provision that would have prevented hoarding but the right to issue supplemental circulation on the credit of the bank identical in form and appearance with the present national bank note.

I think some people lose sight of the fact that a bank will never part with this supplemental circulation except in exchange for an acceptable asset or in payment of an actual liability. If Jones presents his note for discount, and receives bank notes therefor, neither the bank nor the public

The Risk
Infinitesimal.

will suffer, provided Jones's note is good; and the bank will be more likely to get good paper in a time of stringency than when money is redundant. A credit insurance company could afford to insure the bills receivable taken in exchange for supplemental circulation issued in times of stress at a considerable less rate than it would be found necessary to charge for insuring the credits obtainable when money is loaning at one per cent, and a tax at the rate of five per cent per annum would twenty times pay the risk at any time if every bank issued to its limit the year round. The Government would thus insure the circulation at quite a considerable profit.

So long as the manufacturer or jobber retains possession of his output or his merchandise, he has an asset to some extent available, for by placing it in a warehouse he can under ordinary circumstances borrow at least a limited amount thereon. But between the date of its delivery under sale and the date of payment he has a non-liquid and unusable asset.

Throughout Europe so soon as goods are delivered an acceptance is signed, and though payment may be deferred for some months, the vendor has the best and most available asset known to commerce. Our domestic commerce equals \$25,000,000,000 per annum, a considerable proportion of which is sold on time. It is impossible to estimate to what extent this commerce is impeded by the tying up of these billions of credits. If the banks were permitted to indorse from one to another drafts drawn by vendors upon

vendees for merchandise actually sold and delivered without reporting the contingent liabilities thereon as a rediscount, the use of acceptances would be greatly encouraged and commerce greatly accelerated.

The difficulty constantly cited is that in this country there is no reservoir into which the excess of commercial paper can be poured and notes obtained therefor. The German plan when engrafted upon our own would permit each national bank to issue a certain amount of notes against these credits, subject to a tax of five per cent or six per cent, and the aggregate relief thus obtained would be as great as that afforded by the central bank of any commercial country. Thus our credits would be made mobile and available.

The German plan thus briefly explained is, as it seems to me, the only one which will accomplish this most desirable result. To my mind the problem of mobilizing our credits is second in importance only to that of adding the element of elasticity to our currency, and both can be accomplished by clothing the individual national banks with the authority, under proper safeguards and restrictions, to discount a limited volume of commercial paper and issue supplemental notes therefor.

—BEFORE THE ECONOMIC CLUB OF BOSTON, MASSACHUSETTS, DECEMBER, 1907.

XXXVIII

CREDIT CURRENCY AND CURRENT CREDIT

IN paying his hotel bill at Los Angeles, a gentleman from England gives his check on a London bank, which the hotel indorses to its local bank. The local bank indorses it to a San Francisco institution, San Francisco indorses it to New York, and New York forwards it for collection. For nearly thirty days the Los Angeles bank remains contingently liable for the amount of this check, but under the law it is not required to report this liability. If, instead of a sight check, the hotel bill had been paid with a thirty-days' draft, the national bank, under the present law, would have been compelled to report the transaction as a rediscount.

A bank discounts my note and places the proceeds to my credit. I issue my check, which is charged to my account, and with it I buy a sight draft. This I send to San Francisco in payment of a debt, and there is no limit to the number of transfers permissible by indorsement, and it may not return for six months, during all of which time the bank is primarily liable thereon. Still the bank makes no mention of it in its report. If the same bank should sell this draft, payable in six months, the law would

require it to report the transaction as a rediscount. Largely owing to these peculiar restrictions to the flotation of acceptances, our credits, amounting to many billions, are not so mobile as in other countries. Mercantile drafts are very few. In my judgment these should be encouraged to the limit.

When the factory sells and delivers merchandise to the jobber, there is no legitimate reason why the latter should not sign an acceptance payable at the time agreed upon. Such a practice would greatly aid American commerce. Such acceptances should then be freely discounted by the banks, and should pass between the banks not as rediscounts, but as current credits. No better assets are known to commercial banking.

In England, Germany, and France these acceptances are discounted by the government bank and The European Practice. currency issued in their stead. We have no large central bank, no reservoir, where, in times of stress, these credits can be deposited and currency obtained. I see no reason, however, why our national banks may not be clothed with authority to issue a limited amount of credit currency, perhaps equal to fifty per cent of their respective capital, against these current credits.

The foreign banks change the rate of discount from time to time to meet changing conditions.

To carry out the analogy authority might be The Analogy. given the Secretary of the Treasury to specify the rate at which this credit currency should be issued. For the present, however, I

think it would be more advisable to fix a statutory rate of five or six per cent.

With these two provisions, the right to indorse acceptances drawn in the ordinary course of business against actual values, and the authorization of national banks to issue a limited amount of heavily taxed additional currency, our system would be as elastic as that of any country in the world, and as safe and secure as it is now, which is another way of saying absolutely safe and secure.

In consideration of the tax which would prove ten and probably twenty times sufficient to cover the risk, the Government should, in my judgment, guarantee the ultimate redemption of this additional circulation. Let the tax be treated as a premium for the Government's obligation as underwriter.

—BEFORE THE CONNECTICUT BANKERS' CONVENTION, AT HARTFORD, 1907.

MOBILITY OF COMMERCIAL ASSETS

The whole body of the English common law is the result of evolution. In its development business timidly felt its way and crept slowly forward, and the courts in time enforced the practices proven by experience to be helpful to commerce. The liability of the indorser, his release unless notified, three days of grace, are but illustrations of practices put in operation by

A Dangerous
Innovation.

business men and subsequently sanctioned by the courts, and in this country enacted into statute. I fear we have forsaken the Anglo-Saxon method. Legislatures are now blazing trails and demanding that business shall follow and at a prescribed pace.

I speak of this simply to illustrate how it comes that the United States possesses a nonelastic currency, and why our credits are immobile. The right to issue notes is inherent with every bank, private or incorporated, and the right to use them in making exchanges is equally inherent on the part of the public. Neither Congress nor the Legislature can forbid either. Congress does have the power, however, to tax such issue, and the right to tax is the right to destroy. The existing tax is intended to be and is prohibitive.

Prior to the Civil War banks and bankers everywhere issued notes without restraint. The result was most disastrous. Seeing the evil, Congress determined to prevent its repetition. The plan adopted was not through restraints and safeguards, but by imposing a prohibitive tax of ten per cent on anything designed to circulate as money. In my judgment it would have been much better had Congress recognized the commercial necessity for an elastic currency and safeguarded the issue of bank notes. Supervision and restrictions are necessary, while prohibition of ordinary commercial methods is a harsh remedy for evils which sometimes grow out of those methods.

No one will contend that the present loss of business confidence on the part of the American people has been occasioned by our nonelastic currency, but everyone who studies the question in the light of conditions must recognize that this want of elasticity prevents the banks from granting that relief which is possible in every other commercial country. Nonelasticity did not cause the catastrophe, but nonelasticity in our currency has rendered it impossible adequately to relieve from the effects of the catastrophe.

The Cause.

I am disposed to believe that the most unfortunate act of Andrew Jackson's administration was his veto of the act renewing the charter of the United States Bank. I say this, recognizing that no act of his was more popular at the time, and from then until now none has been more universally approved by the American people.

The Central-Bank Idea.

A large central bank, clothed with authority to discount commercial paper and to issue currency against the same as in other great commercial countries, would do much to prevent a repetition of conditions such as we are now experiencing. But the American people are against such centralized commercial power, and I do not believe five per cent of either House of Congress could be induced to vote therefor, and whatever per cent should vote for such a measure would be probably retired to private life at the next election, if that were made the paramount issue in the campaign. In other words, I do not believe the central-bank idea would carry in a single

Congressional district of the United States. Do you say educate the people? I reply that the people will not attend your school, though you give free tuition, free text-books, and luncheon. And it must be conceded that there are some valid objections to such an institution. It would have to be located in some place, and this location would necessarily be some thousands of miles from other financial centers. Seattle, San Francisco, and New Orleans would expect little immediate relief from a large central bank located anywhere east of the Mississippi River and north of the Missouri line, and New York would expect little if centrally located.

The question remains to be solved whether we cannot get substantially all the benefits which other countries receive from the central bank by granting to each and all our national banks, within well-defined limits and under proper safeguards, the essential prerogatives which make the Bank of England, the Bank of France, and the Imperial Bank of Germany such bulwarks of financial equanimity.

Under our present system of banking our credits are most immobile. So long as the manufacturer and the jobber retain possession of their merchandise they can at least place the same in warehouse and borrow against it without impairing their credit. But from the day they have sold and shipped to the day of final collection they possess an asset which under our system is immobile and well-nigh unusable.

Everyone must recognize that money due for

goods sold and delivered is the best asset known to man, money in the till and in the bank alone excepted. In all other commercial countries, the practice is for the seller to make his thirty, sixty, or ninety day draft on the purchaser. These acceptances represent the best class of two-name commercial paper, and throughout Europe they are liquid and pass from bank to bank, and when necessary or convenient to the great central bank for discount—the central bank issuing bank notes against them. Raising and lowering the rate of discount is the method by which the central institution applies or releases the brake, now to and now from the wheels of trade.

Much good would be accomplished if the banks of this country were permitted to indorse acceptances drawn against actual values, and in the ordinary course of trade, without reporting the same as rediscounts. Such an authorization would allow the free interchange of this great flood of credits, which no man can measure, representing goods sold and delivered. At certain seasons of the year the West would absorb much of what other portions of the country annually produce in excess of an ability to handle. At other seasons the West would furnish a surplus which could be absorbed in the East or in the South.

Facilitate the
Interchange
of Credits.

The other essential is a great reservoir corresponding to the central bank of other countries, where in times of pressure the excess of credits can be discounted and notes issued against them.

Is it not possible to allow each national bank to

become a reservoir for a limited amount—say fifty per cent of its capital? Some would call this emergency currency. I would not. Business activity is not an emergency. The emergency comes when business men find it impossible to dispose of what should be liquid assets, and because the banks are restricted as in no other commercial country.

—AT THE BANQUET OF THE NEW YORK CHAMBER OF COMMERCE, NOVEMBER, 1907.

VARIOUS PLANS FOR REFORM ANALYZED

XXXIX

PLAN OF BANKERS' COMMITTEE

THE root of the evil which we experience at frequent intervals is not an inadequate volume of circulation, but a want of responsiveness in the volume of circulating medium. A currency which fails to contract when money is plentiful and cheap will, of course, fail to expand when money is scarce and dear.

An issue of bank notes, secured by a deposit of bonds, like our national-bank circulation, always yields greater profit when interest rates are low than when interest rates are high.

It ought not to be necessary to explain the non-elastic character of bond-secured currency. Suffice it to say that a bank having a surplus reserve of \$105,000 will never exhaust it in the purchase of bonds of the par value of \$100,000 to be deposited as a basis for the issuance of \$100,000 of currency not available for reserve. It will rather retire its existing issue of currency, sell its bonds, and swell its reserve. The tendency, there-

Bond-Secured
Currency
Nonelastic.

fore, of all bond-secured circulation is to contract as interest rates advance and to expand as interest rates decline. Credit currency, by which I mean currency against which no collateral is demanded, is the only elastic currency known to man.

Much has been said in favor of the adoption of a system of credit currency in this country similar to the Canadian plan. If we were creating
Credit Currency. a new system I am inclined to think it would be the one adopted. It is logical and in every way reasonable. For example, the First National Bank of Chicago has three cashiers who do nothing but sign drafts, mainly drawn on New York. These drafts are issued in the ordinary course of business, and no limitation is placed upon their number or their volume. The same institution acquires during the day, from its correspondents throughout the country and from local customers, a large volume of drafts and checks drawn on New York by other institutions, firms, and individuals.

At the close of business this accumulation is packed and sent by express to New York, where it arrives the next evening. These drafts are then sorted during the night and sent to the clearing-house the next morning, where they meet the drafts drawn by the First National on New York.

Everyone concedes the appropriateness of this method of doing business, and, there being no restraint upon the amount that may be done, the volume naturally conforms to changing seasons and to the business needs of the territory served by the bank.

During August, 1906, for instance, 5,700 drafts were issued by the First National of Chicago, aggregating \$32,000,000, while in December of the same year the number increased to 7,500 and the aggregate amount to \$46,000,000, or thirty-three per cent, increase. The bundle of drafts representing New York Exchange, accumulated by the First National during some days in August, measured only 6 by 15 inches, while in some days in December the bundle measured 12 by 15 inches.

These drafts and checks are payable to order and pass by indorsement. What business reason exists why the same institution should not be permitted to issue a carefully safeguarded and limited volume of paper in small denominations payable to bearer? The principle is the same. The only distinction is that one is called a bank draft and the other a bank note. Both rest on the credit of the bank, and the one is as much "wildcat" as the other. Naturally, unrestricted credit currency is elastic. No more is issued than is needed, and when it is no longer needed it retires automatically. There are several reasons, however, why the system must not be adopted in its entirety in this country, and every reason for safeguarding in several ways whatever issue may be authorized.

Canada has thirty-four relatively large central banks, each with several and some with many branches scattered throughout the Dominion. These central banks are permitted to issue bank notes in any volume they please

The Central
Bank System.

not exceeding their paid-up capital. Canada has no commercial banks except these thirty-four central institutions and their branches.

Coöperation, therefore, between these central banks results in coöperation between all commercial banks in the Dominion. These several banks are naturally skillfully managed, and the maintenance of circulation is one of their principal sources of revenue. Every phase of the science, therefore, is fully understood by the management of the parent concerns, and the branches obey instructions.

We have 6,000 national banks, each a law unto itself except as to the size of its individual loans, the character of the security it accepts, and the amount of its reserve. We have in addition about 14,000 other institutions—State banks, savings banks, and trust companies—engaged in commercial banking. To permit an issue from each equal to its capital stock would result in no end of disaster.

Let no one suppose that the adoption of a part of the Canadian system will result in a corresponding degree of elasticity as the entire system yields in Canada. A very limited volume of credit currency issued by 6,000 independent institutions, with 14,000 other commercial banks in the country, would probably yield some measure of elasticity, but it certainly would not yield the same measure of elasticity as an authorized issue equal to the aggregate capital of every commercial bank in the country.

The Question
of Elasticity.

In Canada the maximum issue is always attained in October and the minimum issue in January. From October to January the decline is well-nigh precipitous and always timely. This leads me irresistibly to the conclusion that there is coöperation between the thirty-four central banks. The percentage of contraction between October and January has varied from twenty-two per cent to twenty-eight per cent during the last six years, and has averaged about twenty-five per cent. In other words, there has been an average contraction of only about twenty-five per cent in the volume of Canadian bank-note currency between the maximum in October and the minimum in January following.

The bill recently reported from the Committee on Banking and Currency of the House authorizes a maximum issue of a fraction over \$200,-
 000,000. If every national bank in the
 United States should avail itself of this new privilege, and if the authorized issue should prove relatively as responsive to the changing needs of business as does the credit currency of Canada, there would be an annual contraction of about fifty millions in bank-note currency between the maximum issue in the fall and the minimum issue of midsummer, and a corresponding fifty millions increase in bank-note circulation when the crop-moving period arrived. This fifty millions increase in national bank notes would be equivalent to a deposit in national bank depositaries of twelve and a half millions from the Treas-

The Fowler
Bill.

ury. I believe the proposed measure wholly inadequate.

I refer to one other consideration which, in my judgment, will materially affect the element of elasticity in the proposed new currency. The bill provides that there shall be kept against this new issue the same reserve as is kept against deposits. The avowed reason for requiring this reserve is the recognized fact that a bank note bears a very close resemblance to a certificate of deposit payable to bearer. It is, however, renewable at the option of the bank issuing it. I believe, therefore, a much smaller reserve than is required against deposits, renewable only with the consent of the depositor, would be sufficient. Theoretically, at least, credit currency issues only when there is a demand for it, and the same logic would lead to the conclusion that when it is not needed, and therefore cannot be reissued, the banks will be in condition to take care of it.

The bill is recommended, however, as remedial, and its enactment is urged as an effectual preventive of the oft-recurring monetary stringency, the presence of which is universally acknowledged to be most dangerous.

While no one can determine with mathematical accuracy the effect of financial legislation, there are some things susceptible of demonstration. Suppose this proposed law had been in effect during December last, and suppose the New York banks had been authorized to issue fifty millions in this new currency. But they were at that time

The Reserve
Requirement.

below their required reserve, and in order to issue this much-needed currency they must first swell their reserve twelve and a half millions. Had they been able to get this reserve they would not have needed the currency. Without this increase in surplus reserve they cannot issue the currency, and with this surplus they do not need the currency. Are not their hands as effectually tied as under the present system?

I am strongly in favor of the authorization of the issuance of a volume of bank-note circulation in excess of the par value of the bonds deposited.

I am not, however, in favor of a separate and distinct kind of currency. In my

Guaranteed by
the United
States.

judgment this additional circulation should be guaranteed by the Government, and the fact recorded on the present bank note, to the effect that the same is secured by a deposit of government bonds, should be eliminated, and in lieu thereof the note should contain the following: "This note is guaranteed by the United States."

The present bank note is guaranteed by the United States, for it is secured by a deposit of bonds, and in addition its redemption at the Treasury of the United States is promised without even waiting to sell the bonds deposited as collateral. The smallest thinkable tax on this additional circulation would afford abundant protection to the Government. The tax should be treated as a premium, and the Government should be the underwriter. In this way no new form of currency would be injected into our present system, which is quite diversified enough. It

would also subject our entire issue of bank-note circulation to the element of elasticity.

Suppose \$200,000,000 additional circulation were authorized, identical in form with the bond-secured notes. The entire volume of existing bank-note circulation would then be elastic, for it would all be redeemable in the same way as is now proposed for the new kind. In addition, the banks should be required to retire within three or four months any excess above the par value of the bonds deposited. Assuming then that all national banks would take advantage of the provision and issue once per annum the maximum allowed by law, we would have an annual compulsory contraction of \$200,000,000. In addition the issue should be taxed at a rate of not less than five per cent with no requirement as to reserve. The high rate of tax would compel its retirement when not needed. It is idle to require a reserve against emergency currency, for the exhaustion of reserve is what makes the emergency.

If any legislation is to be had, let it be solely for the purpose of relieving the country from these frequently recurring stringencies. No plan should be devised primarily to enable the banks to make greater profit. The banks of the country are doing fairly well now, and business is prosperous. Nevertheless, we are confronted several times a year with conditions admittedly dangerous. Let a plan be devised which will effectually protect against this danger and all will be well.

—BEFORE MISSOURI SOCIETY OF NEW YORK, FEB., 1907.

XL

LETTERS ON CURRENCY REFORM

A LETTER TO THE PRESIDENT

Comment on the Report of the American Bankers' Association

WASHINGTON, D. C., November 30, 1906.

MY DEAR MR. PRESIDENT: Replying to your request for comment on the letter transmitted with your favor of November 28th, I have the honor to submit:

I hesitate to record my dissent from any of the conclusions reached by the eminent committee of the American Bankers' Association. In my annual report I come as near indorsing the report of this committee as I can consistently with my views on the subject. In other words, I use all the arguments I can in its favor, and omit most of the objections. I admit that I should have been more outspoken if I believed there was the remotest hope of its passage.

The weakness of the report lies in the fact that these eminent bankers have had in mind legislation that would prove profitable to the banks. They point out the weakness of our present currency system and

the dangers resulting therefrom, but instead of confining their recommendations to remedial measures they lay greatest stress upon the maintenance of additional circulation, which will be found profitable at all seasons of the year. In other words, the weakness they point out is want of contraction, while the principal remedy they recommend is inflation.

In the report of the Committee of the Chamber of Commerce of New York special emphasis is laid upon the fact that the country does not require inflation. In this I most heartily concur. The volume of currency during three months of the year is ample if not redundant.

The Bankers' Association Committee recommended the issuance of a volume of currency not to exceed twenty-five per cent of the capital of the bank subject to a tax of two and a half per cent. The national banks of the country are capitalized at approximately \$800,000,000. This would make possible an issue of \$200,000,000 taxed at two and one half per cent while in circulation. No one can tell how much would be issued, nor what share of it can be maintained in circulation. This is variously estimated at from \$100,000,000 to \$150,000,000. I should scarcely expect it to exceed this maximum at any time, nor do I believe the volume would materially change between summer and winter.

The philosophy upon which the recommendation is based is this: the banks finding it profitable to keep their own notes in circulation will send the notes of other banks in for redemption whenever money is

redundant, and this rivalry between the banks will keep a constant stream of bank-bills coming in for redemption and reissue. When money is scarce it is argued the banks will keep any note they can get hold of, for it will be needed. This argument is logical and correct to some extent. It has to be borne in mind, however, that State banks, savings banks, and trust companies will have no desire to send in notes for redemption; and the banks finding it profitable to get them out will naturally lodge them with these institutions, where they can be counted as reserve. We have to bear in mind that bank notes are not available for reserve in national banks, but are as good as any money in all other banking institutions. But conceding that there would be ten per cent contraction during the summer, it would provide for an elasticity of \$20,000,000, which is but a drop in the bucket.

I regret that the report of the committee banishes any hope I have had of currency legislation. No party can put these recommendations in operation and escape defeat at the next election. What do you suppose the people would think of allowing the banks to have \$200,000,000 taxed at two and a half per cent, which they would loan to the people at from five to seven per cent? You cannot make the people understand that maintaining reserve against circulation is equivalent to quite an additional tax. I think the committee figured it out that there would be from one to one and a half per cent profit in maintaining this circulation. This is about correct.

It is not a great profit-earner, but it is supposed to pay about the same profit as is now realized on currency based on government bonds. In that respect it is fair and reasonable, and it is urged that the banks will not maintain it unless it is profitable. That is true. Our circulation, however, is not meager. It has grown at the rate of about \$150,000,000 per annum during the last five years. This expansion has been absorbed, but it should not be continued indefinitely. If the committee had confined itself to a remedy for the nonelasticity, I believe it could have been put through. As it is, I have no hope whatever, and yet I do not wish to put myself in antagonism to the report.

Very truly yours,

L. M. SHAW.

THE PRESIDENT,

THE WHITE HOUSE.

ELASTICITY IS ESSENTIAL

On December 22, 1906, a Richmond, Va., banker writing to the Secretary referred to the then recent recommendation of the Committee of the American Bankers' Association.

This called forth the following:

MY DEAR SIR: I am very much obliged for your kind letter of the 22d. I do not look for any emer-

gency currency legislation this session, nor in the near future. The plan of the Bankers' Committee, in my judgment, would result in inflation rather than in elasticity.

Their recommendation is based largely upon the Canadian system, which works so well in the Dominion.

It is assumed that it will work as automatically in the United States. Suppose that this presumption is correct. In Canada the maximum issue The Canadian System. occurs in October and the minimum issue System. in January. The average contraction from October to January is about twenty-five per cent of the maximum.

The Bankers' Committee proposes an authorization of approximately \$200,000,000. No member of the committee expects the maximum Plan of Bankers' Committee. issue to equal this authorization. They expect the maximum issue to be about \$160,000,000. Assume that it will be \$150,000,000, then twenty-five per cent contraction would equal \$40,000,000 in national-bank note circulation, or the equivalent of \$10,000,000 in lawful money. The expansion, therefore, to meet the strain of the fall and winter season would be equivalent to a deposit of \$10,000,000 government money. I submit this would be grossly inadequate. Within the past ninety days the Treasury has afforded ten times that much relief. The country would have advantageously absorbed twenty times the relief.

Admittedly, the committee's plan would increase

the circulation of the country approximately \$150,000,000. To that extent it would result in inflation. This increased circulation, if deemed desirable, can be secured in a number of ways. We are getting \$150,000,000 increase per annum now, and I doubt if there is a banker in the country, or a political economist of reputation, who would recommend a more rapid expansion than this.

Everyone insists that what we need is a currency that will both expand and contract.

The report itself recites the fact that there is an abundance of money for the dull seasons, and that its only weakness is its want of contraction; so says the report.

But I do not believe the proposed issue would operate as automatically in this country as it does in Canada, and for the following reasons: *All Canadian Money Elastic.* Practically all the paper money of Canada is of this elastic character. It is issued by thirty-four central banks, each with a large number of branches, aggregating 1,266. Naturally, these banks coöperate.

In proof of the fact that they do coöperate, I cite the regularity of the maximum and minimum issue. It may be conceded that, being a one-crop country, the maximum demand is attained in October. This, however, does not establish the fact that the crop is moved and out of the way in January of each year. Nevertheless, the maximum issue is always in October, and the minimum always in January. This is not automatic, but results from coöp-

eration not only as between the branches of parent banks, but also as between parent banks.

In this country we have over 6,000 independent banks of issue, with no suggestion of coöperation between any six of them. In addition, in Canada, there are no other institutions engaged in commercial banking. Here more than half the institutions engaged in commercial banking are other than national banks.

In Canada, practically the whole issue of paper money is subject to this element of elasticity, while it is proposed by the banking committees to subject less than one tenth of our paper money to the element of elasticity.

The committee also recommend a limited bank-note issue, taxed at five per cent, but subject to a reserve, the same as is required by statute against deposits.

The maintenance of a reserve against an issue of notes is as much a burden as a direct tax. The committee recommend therefore that this issue designed to meet an emergency should bear two burdens—first, a large reserve, and, second, a heavy direct tax.

The Emergency Feature Inadequate.

In operation, one has only to apply the remedy to a given case to see that it would be inoperative. It is only when the banks are below the legal-reserve requirement that the emergency currency is needed, and the report of the committee provides that it cannot issue unless the banks increase their reserves. In other words, when the banks have the necessary

reserve they do not need the additional currency, and they cannot issue the additional currency until they have a surplus reserve.

If the committee had recommended the authorization of a very large issue of currency taxed at five per cent, and had required no reserve to be maintained against it, it is quite possible that Congress would have acted. I believe that four hundred millions, the equivalent of a government deposit of one hundred million, could be absorbed during the next thirty days, though taxed at the rate of five per cent, and I am equally certain that, if taxed at that rate, it would be retired within ninety days.

During the last three months, the Treasury has facilitated the importation of fifty millions in gold, Relief Afforded and has released from the Treasury by the Treasury. practically the same amount, making an aggregate of one hundred millions, or the equivalent of four hundred millions national-bank circulation.

The fact that anything was done has been criticised quite generally by the bears, while the bulls have criticised no less vociferously because more has not been done. Had I been influenced by people interested on either side of the market, I would be getting my just deserts, for I am criticised by both sides. Fortunately, the action was taken in the interest of business generally, and I think business men appreciate it.

Had I followed the advice of many prominent financiers, I would have released every available dol-

lar (about \$75,000,000) early in November, and from that time on I would have been powerless to facilitate importations or to do anything else in aid of business.

NATIONAL-BANK CIRCULATION BASED ON MISCELLANEOUS SECURITIES

Replying to a letter dated October 31, 1906, from a member of the House of Representatives, suggesting the issue of national-bank circulation secured by other than Government bonds, Mr. Shaw wrote as follows:

MY DEAR SIR: Your suggestion of national-bank circulation based on bonds other than Government's has the indorsement of the Committee of the American Bankers' Association. I have discussed the matter with several members of the committee; one in particular.

A banker of more than national reputation expressed the thought that this would completely solve the question of elasticity. I asked him to apply the proposed remedy to a hypothetical case. Suppose New Orleans wanted more money to handle the cotton crop; Kansas City, Omaha, and Sioux City more money to handle the cattle crop; and Minneapolis more money to handle the wheat crop, I asked him if he thought the banks in these several cities have the necessary bonds in their possession with which to secure the needed increase of circulation.

Instantly he replied: "The scheme is no good. I had thought only of New York and Chicago, where bonds can be borrowed." He readily admitted that outside of New York, Chicago, Boston, Philadelphia, and St. Louis no available and approved bonds in appreciable quantity could be found to be made the basis for circulation.

You and I know, my dear Mr. Congressman, that no law will be enacted available for metropolitan cities and unavailable for the country.

Further in the conversation I asked my banker friend from what source the city banks would obtain bonds. He replied: "From savings banks and insurance companies." "But these institutions," I said, "hold these bonds for their beneficiaries. Do you think it would be wise to authorize these fiduciary institutions to loan their bonds to national banks without security to the end that the banks may issue national-bank circulation based on security?" In other words, the committee proposes that the wage-earnings shall furnish the security for national-bank circulation. Would it not be much better to ask the Government to bear this risk and allow the banks to issue a certain volume of unsecured circulation guaranteed by the Government, the Government in turn to be made secure by a tax, which might be treated as a premium for its underwritings?

But suppose the banks own bonds of admitted value and promptly marketable, would they deposit these with the Government as security for circula-

tion, which cannot be counted in its reserve, when they might sell the bonds and swell their reserve? In other words, will a bank take a bond that it can sell any hour of the day or night for \$1 in gold, without expense or commission, and deposit it with the Government as security for ninety cents in bank notes, not available for reserve, and on which it must pay a tax, as you suggest, of five per cent per annum?

There is one other phase of the question that must be considered. I fear the effect of legislation of this character because of its trend. I am in receipt of a letter from a State Senator, of my own State, the president of a large bank, a man of affairs, who recommends the use of real estate mortgages as the basis of circulation, and says with some force that if permission were granted to use these mortgages the banks would make real estate loans and carry a reasonable volume of these securities ready for such an emergency. If municipal and other bonds are made the basis of circulation, the rural States will immediately demand that real estate mortgages be also accepted, and the Populist will demand Government warehouses and currency based on warehouse receipts.

I think it is important to anticipate the logic of any proposed legislation. The strenuous opponents of carefully safeguarded currency base their objection to the measure upon the fear that it will be followed with a demand for the unlimited and unrestricted issuance of "wildcat," "red-dog," and

"blue-pup" currency, the remembrance of which is still fresh with those who recall, or who have read, the record of 1857.

INFLATION NOT NEEDED

On February 21, 1906, a member of Congress wrote Mr. Shaw, suggesting the importance of providing sufficient money for our enormously expanded business, which it is claimed by many is inadequately provided by our present system of currency, based on United States bonds, and followed his suggestion with sundry recommendations. Mr. Shaw replied in part as follows:

MY DEAR SIR: On June 30, 1897, we had a volume of money of all kinds equal to \$22.49 per capita. We now (1906) have approximately \$32 per capita. I do not think it is generally claimed that our currency has increased less rapidly than is desired, nor do I think our volume of money inadequate to meet normal conditions.

You are doubtless correct in your proposition that some way should be provided by which the aggregate volume of our circulating medium should expand when needed, and contract when the unusual demand subsides. This recognized need is, however, more easily expressed than provided. The authority to deposit customs receipts in national banks should be

granted, though it would in no measure add to the elasticity of our currency.

By depositing \$100,000 per day from internal revenue receipts, the Secretary can readily avoid any accumulation in the Treasury. Money never accumulates in the Treasury except with the deliberate consent of the Secretary. By keeping internal revenue receipts and customs receipts in separate funds, a policy I inaugurated soon after I came to this office, prompt deposits in any amount may be made at any time. It is therefore unnecessary, though desirable from the standpoint of convenience, to amend the law permitting the deposit of customs receipts.

You also suggest a charge of two or two and a half per cent interest on government deposits, the same to be secured by municipal bonds. Banks can afford to secure government deposits with an hypothecation of bonds, or they can afford to pay interest on government deposits. No bank can afford to do both. This is easily demonstrated. You have only to take a given case.

Interest on
Government
Deposits.

So long as a large surplus remains in the Treasury permission to deposit the same in the national banks without security, the same as private citizens are expected to make deposits, and at a rate of interest to be determined by the Secretary of the Treasury, would afford some measure of elasticity. It would require the exercise of great discretion, however, and it would subject that official to no end of criticism.

Illogical to Demand Security for Government Deposits in National Banks. In this connection I desire to suggest that demanding security for a government deposit in a government bank is illogical. The Government expects the citizen to keep his money in the banks, and for his security provides for frequent examination of these institutions. The Government in a true sense recommends the national bank to the confidence of the public. It then impeaches its supervision by demanding specific and unquestionable collateral for every dollar of public money placed in these institutions. What must the citizen think of a national bank created and supervised by the Government, but in which the Government has not sufficient confidence to deposit its own funds without collateral?

TAXATION OF ADDITIONAL CURRENCY

In May, 1906, a gentleman in Brooklyn submitted to the Secretary "A Guide for the Proper Rate of Determining Taxation of Asset Currency."

The Secretary replied:

MY DEAR SIR: If you start the rate of taxation low enough to justify the issuance, under normal conditions, of the character of currency you contemplate, you will cause inflation—a thing that must not be entered upon. We have too much, rather than too little, money under normal conditions. Nearly every

scheme looks to inflation and that renders nearly every scheme untenable, if not unthinkable.

Second, if you put the rate of interest sufficiently high to prevent this issuance of currency, except when there is an extraordinary demand, there is no occasion for a sliding scale. The sliding scale would be very good if we were beginning a new system, but a sliding scale now means that the low rate will be used for inflation and the high rate for emergencies. All we need is something in the nature of emergency currency.

I venture the suggestion that with a very little additional education the country will be prepared to adopt the German system. There is great objection to bond-secured circulation. Of course there are advantages. It affords a market for our government securities, but we cannot undertake to find a market for every municipal bond that is issued, and, in my judgment, we should not put them in competition with government bonds in this unique field which no other country, so far as I know, has adopted. It is peculiarly American, and while it has been in operation many years, no other country has adopted it. It therefore does not enjoy the approval of the financial world, and I doubt the wisdom of extending it.

REDEMPTION OF CREDIT CURRENCY

On November, 1906, the president of a large bank in Missouri wrote the Secretary, asking, "Who

is to furnish the gold for the redemption of the proposed credit currency?" The Secretary replied:

MY DEAR SIR: I think you have missed the philosophy of credit currency as expressed in your letter of November 17. When I give my note, due in sixty days, you settle the transaction with cash, if I demand it, or you place the amount to my credit, and I check against it, or you issue me, if I desire, a certified check, or even a certificate of deposit payable to order. In other words, you have a bankable asset, and you give me actual cash or any evidence of indebtedness which I may require. This evidence of indebtedness which you give me, if a certified check, a draft, or a certificate of deposit, is payable to order. Suppose it be a certified check. I then send it by mail or deliver it personally to anyone to whom I may be indebted. Suppose I send it to Chicago to pay for a bill of goods. The certified check is accepted as cash without even knowing whether such a bank actually exists. The business house will not even look at a bank directory. It will send me a receipt for my bill. Why not ask who will furnish the gold with which to redeem this check? It is a liability of your bank and you must redeem it. Those who advocate credit currency insist that instead of giving a certified check payable to order the bank shall be granted the right to give its note payable to bearer and redeemable on demand.

The bank of issue must furnish the gold with

which to redeem it, exactly the same as it furnishes the money to redeem its obligations payable in sixty days.

A PLAN FOR CURRENCY REFORM CRITICISED

In December, 1906, a St. Louis business man of some prominence wrote the President, submitting a plan of currency reform. This, as usual, was referred to the Secretary of the Treasury. Subsequently, the gentleman wrote, complaining that his communication had received scant courtesy.

Mr. Shaw wrote him:

DEAR SIR: I have looked up your letter to the President, and now recall having read it when it was received. Similar letters are received almost every day, and if I were to take the time to discuss all the various plans presented I would do little else. Your last letter, however, is so courteous and seems so fair that I am constrained to submit some observations.

In the first place, Congress will never go to the extreme in paternalism which you suggest. I do not believe it will ever establish even a central government bank, though it has been many times recommended and some of the highest authorities are now urging it. Few of them, however, go to the extreme that you do. Your proposition would practically turn over to the Government the entire banking business. I think this would be more objectionable than government ownership of railroads; and not unless the Government decides to own the railroads, the

mines, the forests, and the farms, will it ever engage in the business of receiving deposits and making loans.

I think you have fallen into the error so common to us all. We see evils, and though they be inherent in human nature, we look to the Government to protect us. Israel got into difficulty by worshiping a golden calf while Moses was on the mountain receiving the great moral law. I do not know that we are in danger of making statute-law the object of our idolatry to the neglect of moral teachings, but I do know that there are many evils which cannot be cured by statute and no measure of paternalism would free us therefrom.

Permit me to throw your mind for a moment into another channel of thought. The hope of the republic is in rural communities, including the smaller towns. It is doubtful whether London, Paris, Berlin, or New York could successfully maintain a republican form of government independent of the country. The present trend of business is not friendly to rural communities. The lumber business is in the hands of large corporations with branch-yards operated by men on salaries. The implement business is in the hands of large corporations represented throughout the country by men on meager salaries. The breweries, even, own the saloons. This results in taking the profits legitimately earned in rural districts into the city. All this is aggravated by the suburban and interurban car, which makes city shopping easy. The large city stores are now advocating the parcels-

post avowedly in the interest of the rural districts, and the rural districts are espousing the delusion. Add to this the branch bank, or the government bank, and you have put nearly every man on salary. Under these conditions who would build the country churches, maintain the good homes, and thus inspire the public to better things, which, in the last analysis, is the key to our advancement in morals as well as in every other line?

Let the Government safeguard the citizen in every appropriate way. Let the Government, if you please, umpire this great game of business in which nearly ninety millions are engaged, but let not the Government sit in the game. Individualism, as distinguished from collectivism, must be our watchword.

I grant that we have drifted far from the conception of the fathers. Thomas Jefferson, you will remember, was opposed to government appropriations for the improvement of rivers and harbors even. Now the political disciples of Thomas Jefferson vote for government inspection of meats and other food products, government quarantine against yellow fever and other diseases; many of them go so far as to recommend government highways, and the great leader of the alleged Jeffersonian party even favors government ownership of railroads. To me it seems wiser to bear the ills we have than to fly to those we know not of.

But for your letter I should feel disposed to apologize for having written so much, yet there is one thing I omitted. You say in one place, "instead of

the Secretary of the Treasury trying to relieve the stringencies, as now, through the New York banks, where it is often used for speculative purposes only," etc. This indicates that you have failed to read the papers even. Of the \$26,000,000 recently deposited, as much was offered to Chicago as to New York, and nearly as much to St. Louis. Chicago and one or two other cities declined all I offered them.

Your other suggestion, that money in New York is frequently used for speculative purposes only, is even further from the real condition. There is much speculation in New York, but the relative proportion of speculation to legitimate business is probably as large in Hannibal, from which place your letter to the President was written, as in New York. I have on my table a letter from a very high authority saying that he has made a study of the question, and is of the opinion that not over two and a half per cent of the business of New York is speculative. While looking at these things you must not get Wall Streetphobia; it is a very dangerous disease and very prevalent at this time.

BRANCH BANKS

In January, 1903, a prominent banker in Los Angeles wrote the Secretary, submitting what was called the Los Angeles Clearing-House Bill. The Secretary replied:

MY DEAR SIR: Your letter of the 2d, with the Los Angeles clearing-house plan, is received. I am

not surprised that reserve cities favor a plan which will allow their banks to furnish the additional currency that the country needs, but I doubt very much whether the country will consent to what amounts to credit currency issued only by reserve cities. If the issuance of credit currency is authorized the privilege will probably be made quite general. I know of several financial institutions whose officers favor a provision permitting banks with over \$10,000,000 capital to establish branch banks throughout the country. A certain Philadelphia bank is strongly in favor of this plan if restricted to the State in which the parent bank is located. When asked why the restriction, they say, because New York banks would immediately establish branches in Philadelphia. The man could see no objection to allowing the Philadelphia banks to put branches in Pittsburg. Bond brokers quite generally favor a provision for currency based on State and municipal bonds instead of government bonds. Some bankers in rural communities have proposed farm mortgages. My judgment is that we will have to agree on a policy that will be beneficial to each community, if we get any bill passed.

The general plan proposed by the Los Angeles clearing-house is about the same as that of all other clearing-houses.

I have written quite frankly, but I don't want what I have said to be considered as an impeachment of motives. All these ideas are the result of the natural and irresistible tendency to begin at home

and build outward. Those who deal in bonds and are familiar with them are naturally led to their consideration as the basis of currency. Those who are connected with the clearing-houses, naturally, irresistibly, evolve a scheme by which they can come to the relief of the country in case of trouble. But each individual banker knows as we all know that each local bank, if permitted, will meet the local difficulty. It isn't necessary that New York have branches in Los Angeles in order to protect Los Angeles from destruction. Los Angeles will take care of its own if the Government will permit it to do so, and so will every other town.

THE CANADIAN SYSTEM

In December, 1904, a member of the Supreme Court of a large Eastern State wrote the Secretary of the Treasury, referring briefly to the defects in our currency system, and urging him to bring every pressure to bear to have it immediately corrected.

Mr. Shaw replied as follows:

MY DEAR SIR: Your letter of the 7th is received, and I note what you say with reference to the currency question. Personally, I would not fear the Canadian plan, but I think you will recognize that to add that to our present system would mean expansion. It would be necessary to limit the volume, and with a limited volume there would not be very much aggregate expansion. Perhaps I do not

make myself clear. To reconstruct our system on the Canadian plan would necessitate the retirement of the greenbacks, Treasury notes, and government bond-secured bank circulation. In other words, the Government would have to go out of the banking business. We could then have a possible credit currency aggregating nearly a billion. The elasticity of such a volume would be adequate, but no one would dare authorize such a volume in addition to what we now have. No credit-currency man suggests, so far as I know, more than twenty-five per cent of the bank capital, an aggregate of \$200,000,000. In practice, not over seventy-five per cent of it could be forced into circulation at any one time, and the elasticity of \$150,000,000 would, in my judgment, be insufficient. I think we must secure the major part of our elasticity according to the German system.

But, whatever you and I may think, the Canadian system will not be adopted, at least for many, many years. The Administration could not force it if it would. The country is against it. I do not think—and I speak confidentially—I do not think the Administration could force any financial legislation at this time. I am by no means certain that it should try, and I will explain my reasons.

Go back, if you will, to 1892. It was the most prosperous year the country had ever seen, and there was no legitimate reason or excuse for the panic that followed. But Mr. Cleveland called Congress together and frightened the country by what I believe

to have been the most unfortunate message ever submitted. In saying this, I do not stop to question the wisdom of any single recommendation. But you remember he told the country that the purchase of silver was sinking the ship; that the greenback was exhausting our steam; and that the tariff was starving our seamen; and every fellow who could get a plank jumped overboard. I don't believe this is a good time for the President of the United States to tell the American people that they are in imminent danger, and that unless some financial legislation is had we will all go down. I need not enlarge upon this. You get my thought. There should be no alarm signals hoisted at this time.

To the foregoing the eminent jurist replied, urging the Secretary to make definite, specific recommendation, and used this language: "If you would incorporate this reform, you would do more for the country, and more for financial direction, than any man since Alexander Hamilton."

Mr. Shaw replied:

DEAR JUDGE: Your letter of the 16th instant is received, and I note your regret that I did not point out a specific remedy for the recognized weakness in our currency system.

I am a great believer in the distinct and coördinate functions of our three departments of the Government. It is proper and appropriate for the Secretary of the Treasury to call attention to unsatis-

factory conditions and to explain their every symptom, but I think he ought not to invade, unasked, the realm of the legislator.

Second, no legislation on the subject is possible at present, and if the Secretary of the Treasury were to point out a specific remedy it would draw the fire of every opponent of any change, and every advocate of every other remedy, and he would be hopelessly in the minority.

Let me try to express the same thought more clearly. Two thirds of the people of the United States who have given the question any consideration agree that some change is advisable, but not ten per cent of this two thirds can agree as to what the change shall be. Whoever submits a plan finds the remaining nine tenths his active opponents. I have deemed it better therefor to call attention to the evil, and to emphasize it until enough sentiment is created by the combined efforts to insure a good-faith effort to correct the evil. When that effort is made I will have somewhat to say. Pardon me if I suggest that there is diplomacy in legislation as well as elsewhere. Nothing can be done at present. More sentiment must be created.

In January, 1906, a gentleman living in Chicago wrote the Secretary a letter, which called forth the following:

MY DEAR SIR: There are objections to substituting the Canadian banking system for our own other

than the fact that the American people will never stand for it.

In Canada there are thirty-four central banks each with a large number of branches. Here we have twenty thousand independent institutions. Whoever supposes a bill could be passed centralizing the banking business of the United States has not measured the influence of the proprietors and officers of these institutions.

The lumber business of the country is conducted to a great extent by large companies with branch-offices in the various towns. These branch-offices are managed by bright young fellows working on salaries and making good money for the company which is sent to the city. The implement business is controlled in much the same way, and the legitimate profits go from the country to the cities. The large department stores get the best trade from the country and the profit incident thereto. Interurban railroads and cheap transportation strongly tend to centralize trade. Even the breweries own the saloons and carry off the profits. If the big cities could get a bill through authorizing branch banks, it would result in further centralization, and the country town, the hamlet, the rural community, which has heretofore, does now, and ever will produce its full share of the brain and the conscience of the country, will have no one left to build a church or bear the burdens of such a community.

It has been urged that the recommendation of

the Committee of the American Bankers' Association is in effect the engraftment of the Canadian system upon our own. This is erroneous. You can engraft plums on peaches and peaches on plums, but you cannot engraft either on sugar maples. Under the Canadian system the banks are prohibited from paying out the notes of other banks. This, of course, forces the notes home for redemption. If the new note proposed by the bankers' committee proved satisfactory to the people, and it ought to be satisfactory, it would be accepted as readily as our present bank note, and no one would send it in for redemption until it was worn out.

You ask how my plan is better than the Canadian system. I have recommended nothing in lieu of the American system. The American system is entirely different from the Canadian, and the American system will remain. I have repeatedly said that it will not be abandoned for any other. I have made certain recommendations which I think would effect a measure of elasticity. It consists simply in allowing the banks to issue additional circulation in times of great stringency when money is worth sufficient to justify it. To make sure that it be issued only when needed I have proposed a tax of not less than five per cent per annum. Certainly it will not issue until current rates exceed six per cent, and it will be retired as soon as the banks find it unprofitable to maintain it. This is practically the German system. Referring to my botanical illustration, I believe our system bears sufficient relation to that of Germany to justify the engraftment.

Many people confound capacity to expand with elasticity. A roll of putty will elongate, but it will not contract. For five years we have added about \$150,000,000 per annum to our circulating medium, but the volume remains the same in July and August as in November and December. It fails to contract and is therefore nonelastic.

A CONTROLLING BOARD CONSIDERED

In January, 1907, a congressman from a Western State wrote the Secretary of the Treasury, submitting a draft of a currency plan, prepared by a prominent constituent. Mr. Shaw's reply was as follows:

MY DEAR SIR: I am in receipt of your letter of the 7th inclosing one from a distinguished constituent, and a rough draft of what he calls "my ideas of elastic currency."

You will pardon me I know, and I hope your friend will also, for suggesting that he must have failed to think the proposition through. He proposes putting the idle money of the Government under the control of a board of governors, of which the President of the United States and the Secretary of the Treasury shall be *ex officio* members; that this board of governors be located at the office of the Sub-treasury in New York, and be on duty from the hours of ten to two each business day.

The idle money of the Government is now under

the control of a board of governors, of which the President is the ultimate authority, while the other nine are simply advisers, and are usually termed "the Cabinet." These men are not only loyal to their chief, but loyal to the party they represent, and forgetting all else they try to do what is best and, as far as possible, what the people will approve.

Very likely your friend has in mind that the board of governors other than the *ex officio* members shall be men in easy reach at New York. Presumably they would be men of national reputation. Men of national financial reputation are usually more or less intimately identified with one or another of the great groups of financiers in that financial center. I wonder how much money your friend thinks a Western bank would get on security other than stocks and bonds if the surplus funds of the country were under the control of a board of governors holding daily sessions in the city of New York.

Stripped of its very objectionable details, the crux of the recommendation is that the money of the Government shall be loaned at six per cent and secured by collateral. You will remember that the proposition to have the banks pay two per cent interest on government deposits secured by collateral was fully thrashed out in the House a year or more ago, and it was demonstrated that the banks could afford to pay interest on deposits if they did not furnish collateral, or they could afford to furnish collateral if they did not pay interest, but that they could not do both.

Within the last sixty days a large National Bank in Philadelphia asked to be relieved of a million of Government deposits on which they paid no interest and when money was loaning on call at ten per cent. If money had been worth but one per cent they could have afforded to keep it. I granted the request on condition that the bank find some other institution which would take it. This they were able to do. They were evidently in the same frame of mind as the girl who, soon after being converted, testified in meeting that she found her jewelry dragging her down to hell, so she gave it to her sister.

Your friend is doubtless sufficiently familiar with the principle involved to recognize that banks, especially in reserve cities, can afford to keep government deposits secured by collateral only when interest rates are low.

*BUSINESS SAFEGUARDED BY
TREASURY OPERATIONS*

XLI

CONSERVING PUBLIC CREDIT

PUBLIC credit is not synonymous with national credit. The Treasury Department can do little to affect the credit of the nation, but it can do much to conserve public credit. It is not the province of administrative officers to prevent the payment of the fixed charges incident to the maintenance of the Government, or to defer expenditures specially authorized by Congress, and they are equally powerless to increase revenues. By the exercise of proper care the Treasury Department can circumvent smuggling and undervaluations and other gross frauds against the revenues, but it can neither increase nor diminish the rate of duty fixed by law nor the internal revenue taxes imposed.

There is nothing known to man so sensitive as public credit. It is dependent upon sentiment as well as upon fact, and the existence of sentiment will produce facts sufficient to justify a sentiment before unwarranted.

The Power of
Sentiment.

Let the sentiment prevail that the market-price of real estate will advance, and an advance will immediately follow. Create a sentiment that a panic is fast approaching and a panic will soon arrive. Under our financial system the Treasury Department is held responsible, to a very large degree, for the maintenance of a healthy public sentiment. Dealing therefore with subtle, undefined, and indefinable conditions, on which the prosperity, the contentment, and the happiness of nearly ninety millions of people depend, the Treasury Department is confronted with a task at no time insignificant.

It has been the fixed policy of the Treasury Department for more than half a century to anticipate monetary stringencies, and so far as possible prevent panics. It should not be necessary to defend such a policy. Extraordinary measures to prevent the spread of epidemics are always commended, though this country has never witnessed a pestilence which has left in its wake so great an aggregate of suffering and sorrow as mark the presence of epidemics of financial disorder and industrial stagnation.

Not only does private revenue, private subsistence, and private credit suffer from public distrust, but national revenues are also materially affected thereby. Should any of our great cities be forced to issue clearing-house certificates, whatever the cause, cablegrams by the hundred would countermand existing orders for merchandise, and customs-receipts would reflect the calamity in thirty days.

Independent of individual suffering and disaster, the actual and immediate loss of \$100,000,000 from the government treasury would not equal the contraction of public revenues incident to a panic such as this country has witnessed several times in the last hundred years.

And what can be done by the Treasury Department to relieve stringencies in the money market, and to restore normal conditions, so that whoever deserves credit can get credit, and none will hesitate to incur liability lest circumstances over which he has no control will prevent meeting the same at maturity? ¹

It is generally conceded that our monetary system is nonelastic. Those who, in proof of the contrary, cite the ability of national banks by coöperation to increase circulation at pleasure, and to contract it at will, lose sight of the fact that when money is scarce and dear it is ever unprofitable to maintain circulation; and when money is plentiful and cheap it is unprofitable to retire it. The slight element of elasticity possessed by our system as at present constituted works inversely to the needs of the public. Bank circulation does not respond to the varying needs of the country, and it should be borne in mind that national banks are under no more obligation to increase circulation at a loss than are State banks and private corporations under obligation to borrow in Europe, and import gold for the common relief.

Our Currency
System
Nonelastic.

In the absence of this much-needed automatic

¹ See editor's note, page 358.

elasticity, the Treasury Department of necessity must bear the responsibility of doing all within the limits of its power to supply its place by relieving, not the national banks, not the banks in the large financial centers, but by relieving the public, and thus conserving public credit. Those who lose sight of the reflex influences of the money-market, and note only its effect on banks and bank customers, are as ignorant of the true situation as those who think the banks are benefited by panics and resultant high rates of interest.

Experience demonstrates that it is impossible for Congress to enact revenue laws that will exactly supply the needs of the Government. There has been no year in our history that has not shown either a surplus or a deficit, though neither is desirable, and both subject to widespread criticism. Had the American people produced, imported, and consumed during the last fiscal year [1904-5] per capita, as they did in the corresponding year of the previous decade, the surplus for the fiscal year 1904 would have been wiped out and a substantial deficit would have been created. Universal confidence and universal distrust are alike reflected in revenues.

During periods when revenues exceed expenditures, the most natural way to relieve a temporary tension in the money market has been to purchase government bonds for the sinking-fund account or to make deposits in national banks. By allowing a surplus to accumulate

Annually
Either Surplus
or Deficit.

Traditional
Methods of
Relief.

in the Treasury during months when money is plenty and interest rates undesirably, if not dangerously, low, and then restoring it to the channels of trade in times of stringency by purchasing bonds or making deposits, some slight measure of elasticity can be accomplished. Care must be taken, however, that the deposit of public money secured by government bonds does not advance the price of bonds to the point where it is unprofitable for banks to maintain their circulation, for in that event national-bank circulation will be certain to contract, and the effect of the deposit will be counteracted.

Fortunately, the law authorizes the acceptance of any security which the Secretary of the Treasury feels justified in taking. There is no doubt on this point, and instances can be cited where collateral of every kind has been waived and individual, personal guaranties accepted.¹

The statute reads: "Shall give satisfactory security by the deposit of United States bonds and otherwise." Certainly it is not intended that deposits shall be secured by government bonds increased by something else. Beyond all legal question the provision is not cumulative but alternative. The authority given is to accept security in government bonds, and to accept security "otherwise." By the judicious exercise of this discretion the price of government bonds can be kept normal, or reduced as occasion may require to a point that will stimulate national-bank circulation. These deposits can then be called

¹ See editor's note, page 358.

at seasons of the year when money is plentiful, lest its cheapness encourage unwise speculation.

During periods when expenditures exceed receipts, it is not so easy for the Treasury Department to anticipate conditions and effect an elasticity. The Treasury must be in a deplorable condition, however, when ten, twenty, or possibly thirty millions cannot be spared for a month or more in times of acute stringency.

No one would criticise the depletion of the Government's bunkers to the limit of safety to relieve an acute coal famine, and, admittedly, the loss of public credit, if long continued, causes inevitably the loss of employment, and the loss of employment entails not only coal famines but food famines as well. Then, too, there are always means at the command of the department by which circulation can be stimulated at appropriate times.

There are some very good people who contend that the Government should not meddle with the private financial affairs of the citizen, though the same people commend governmental watchfulness to prevent war and disease. These critics insist that the Government must not concern itself with financial conditions as they affect the public, at the same time admitting that sanitation is an appropriate subject for governmental solicitude. They urge that the banks should be taught to rely upon themselves, forgetful, it would seem, that the people must of necessity rely upon the banks. As well might they urge that

Government
Aid Benefits
All.

springs and wells and supply streams be let alone, and authorities content themselves with teaching the people the desirability of an abundant supply of pure water. Again, I say it is not the banks alone that are involved in this question of public credit, for the laborer on the street suffers about as promptly, and quite as severely, from the effects of a panic as the banker in his office.

I grant that the American banker is not always as conservative as one would wish. The desire for big dividends is altogether too potent with many boards of directors. The success of a bank should not be, must not be, measured by dividends earned. Banking may not be a profession, but in ethics it should approach a profession rather than the vocation of the speculator. We count the lawyer, the doctor, and the preacher most successful who best serve those who rely upon them. Fortunately, the lawyer, the doctor, and the preacher who best serve their clients, their patients, and their parishioners are seldom forsaken, and their seed seldom beg bread. The bank that best serves the public, whose servant it is, may not pay the largest dividends, but in the swing of years it will build for itself a name; not the envy of the world, but the pride of those who have had to do with shaping its policies. So while the banker must be taught self-reliance, and must be condemned for policies which result in public disaster, yet when banks, through ambition, through avarice, or through greed, fail in the discharge of the appropriate functions of

their great calling, the Treasury Department must not excuse itself and join in popular condemnation of those who of all should be the conservators of the public credit, but it must, to the limit of the authority with which it is clothed, and at the risk of personal reputation, grant relief and prevent disaster.

—PREPARED FOR THE BANKERS' ASSOCIATION OF THE DISTRICT OF COLUMBIA, SEPTEMBER, 1905.

[EDITOR'S NOTE.—Mr. Shaw, while Secretary of the Treasury, found it necessary for the prevention of financial crises to establish several important precedents, in explanation of which the following is quoted from his annual report for 1906:

1902

Acceptance of Other than Government Bonds as Security for Deposits.

"During the summer of 1902 surplus bank reserves throughout the country ran relatively very low. This is one of the surest indications of trouble in the fall. Preparatory for the crisis certain to ensue, the Secretary of the Treasury caused to be printed as much unordered national-bank circulation as the Bureau of Engraving and Printing could turn out, in addition to the ordinary demands upon it, and in September of that year offered to accept satisfactory security other than government bonds, for deposits of public money then held by the banks for which this additional circulation had been printed, on condition that the released bonds should be immediately made the basis for circulation. He also anticipated the payment of November interest due on outstanding obligations of the Government, and offered to purchase for the sinking fund any United States four per cent bonds of the loan of 1925 that might be offered at 137¾ and interest to date of purchase. He also increased deposits in national banks in quite a consider-

able sum. In these several ways he restored to the channels of trade somewhat over \$57,000,000 and stimulated national-bank circulation to the extent of \$18,000,000. He also issued an announcement that he would not exercise the discretion given him by statute to liquidate banks which fail to maintain their reserve should they fail to maintain the same against deposits of government money.

"These operations were not begun, however, until a condition existed which in the opinion of many leading bankers of New York City justified the issuance of clearing-house certificates, and when a resort thereto was being seriously considered. Two of these methods (the acceptance of other than government bonds as security for deposits, and the announcement that the discretion with which the Secretary of the Treasury is clothed by statute would not be exercised against banks failing to maintain reserve against government deposits) received their full meed of criticism at the time, but no lawyer ever doubted their legality and no business man now questions their necessity. Financiers generally now recognize, and some of the best known have publicly announced, that but for what was then done a panic would have ensued rivaling in severity any in our history, and which would possibly have continued until industrial conditions were disastrously affected."

Referring to the monetary stringency in 1903 the Secretary says in this report:

1903

Establishment of a Relief Fund.

"The law authorizes the Secretary of the Treasury to deposit in national banks only internal revenue and miscellaneous receipts. Having found it impracticable to relieve a monetary stringency with current internal revenue receipts amounting only to about \$500,000 per day, the Secretary early in 1903 ordered their segrega-

tion and the accumulation of a separate and distinct fund composed entirely of internal revenue and miscellaneous receipts, so as to be prepared in case of an emergency to grant prompt relief by large deposits. This practice has been continued."

1906

Facilitating Gold Imports.

"In February of 1906, \$10,000,000 was deposited in national-bank depositaries in seven of the principal cities and satisfactory security other than government bonds accepted, but with the distinct understanding that it would be recalled in July of that year. This relief was not sufficient, however. Banks everywhere, West as well as East, found themselves in the spring with surplus reserve exhausted.

"The foreign exchange market responded sympathetically in a very marked decline in sterling exchange sufficient to have insured the importation of gold if the banks had been in position to buy the exchange with which to secure it. The Secretary then offered to make deposits, satisfactorily secured, equal in amount to any actual engagements of gold for importation, the same to be promptly returned when the gold actually arrived. In this way approximately \$50,000,000 (more than six carloads) in gold, largely in bars, was brought from abroad. Most of this came from Europe, but in part from Australia and South Africa.

"This was accomplished without expense to the Government and without profit to the importing banks, but with great benefit to the business interests of the country. The various banks which imported this gold lost in the transactions several thousand dollars as established by their books; the price of exchange promptly advanced so that merchants and exporters of grain and cotton having exchange to sell were benefited in excess of \$150,000 and interest rates dropped sufficiently to effect a saving to borrowers in New York City alone of more than \$2,000,000. This means of

relieving financial stringencies, which has been once since repeated, attracted far more attention throughout Europe than in the United States, though it has been widely commented upon in both places.

"It has at least demonstrated that the United States is in a position to more effectually influence international financial conditions than is any other country, and justifies great caution lest while protecting our own interests we cause distress elsewhere, which would soon be reflected here."]

LETTERS TO THE PRESIDENT

Threatened Financial Stringency

WASHINGTON, D. C., July 27, 1903.

MY DEAR MR. PRESIDENT: Very naturally you are deeply interested in the financial situation, and I presume some people are saying that the department ought to do something. With such I do not concur. Last year, when the department acted, the banks at New York had exhausted their reserve, and interest rates had advanced to twelve or fifteen per cent. There was then no apparent want of collateral but a scarcity of money. There were but very few cities in the United States that had anything above the legal requirements, and many cities were below. Des Moines had twenty-one per cent and Lincoln, Neb., nineteen per cent against a required twenty-five per cent. The difficulty, therefore, was not local but general.

These conditions do not now exist. New York City has \$18,000,000 in excess of its required twenty-five per cent. Interest rates are low. The difficulty does not seem to be a want of money but a want of collateral. The firms that failed could have been taken care of, and at reasonable rates, if they could have given the security. While there were no failures last year, the difficulty was in the nature of a currency famine. But for the course the department took the banks would probably have resorted to clearing-house certificates the next morning. They needed money, could not get it, and were thus on the point of resorting to the best substitute for money, clearing-house certificates.

If I were to make a public statement now that I would relieve any money stringency that might occur in sixty or ninety days, the chances are it would be discounted, so to speak, and the contingency would be more likely to arise. If the banks are expecting to be thrown upon their own resources, they will take all possible precaution.

We may have difficulty. The situation is far from bright, though I confess to you that I am not so anxious as I was a year ago. I am more apprehensive of a prolonged period of stringent times, but I am not so apprehensive of a disastrous panic, a financial crash, as last year. You will remember a year ago some parties wrote you criticising, mildly perhaps, a note of warning I had sounded at a banquet in New York. The banks, to my mind, then seemed blind to the situation and resented any word

of warning. Now they are fully aware, and will be the better prepared to take care of themselves when the crop-moving season arrives, when we may naturally expect a stringency in money.

Mark you, I am not making any predictions, not even to you, but we must keep our nerve and not be stampeded.

Very sincerely yours,

L. M. SHAW.

THE PRESIDENT,
OYSTER BAY, N. Y.

Relief of Stringency Justified

DIXON, ILL., October 27, 1906.

MY DEAR MR. PRESIDENT: I have recently seen some newspaper criticism of the recent action of the Treasury in relieving monetary stringency. Some of these you may have seen, and that you may fully understand the situation I beg to explain.

More freight cars are in use, more checks are drawn, more drafts issued, more cash transferred, more loans made, and more business done in the fall and winter months than during the summer when the crops are growing and when business men are on their vacations. It follows that more actual money is needed to meet these extraordinary demands. Experience justifies the statement that the banks cannot be depended upon to accumulate reserve during the summer months. And when I say "the banks"

I do not refer to institutions in any one city or in any one locality of the country. It is customary for the interior banks to send their money to New York to be loaned on call whenever the call-rate is higher than the rate paid by the city banks on open account. This encourages speculation, but the encouragement comes from the interior as much as from New York itself; in fact, interior speculators are continually borrowing on call in New York. It therefore follows that, if the Treasury does not make provision in the summer for the approaching pinch of winter, serious results will follow.

During the last summer the Treasury absorbed sixty millions, and took it from the channels of trade. A part of this came in naturally from the fact that current revenues exceeded current expenditures, and a part of it was purposely and deliberately withdrawn so as to make sure that there would be a fund from which relief could be afforded. When the pressure came, the money in the Treasury was used first to facilitate importations of gold, and approximately the equivalent of six carloads—\$50,000,000—was brought from across the seas without expense to the Government, but to the very material relief of business. Subsequently \$26,000,000 was deposited. In addition to this I offered to take State and municipal bonds in lieu of government bonds held by the Treasury as security for deposits, on condition that the released bonds should be used immediately as a basis for increased circulation, this additional circulation to be retired during the summer months.

Some ill-advised papers have joined with those who have motives for so doing in saying that this was all done in the interest of Wall Street. Others criticise because the banks pay no interest on deposits. The question of paying interest on deposits was thoroughly thrashed out on the floor of Congress, where it was demonstrated that the banks could not both afford to give security and to pay interest for deposits. They can do one, but not both.

If these animadversions were indulged only by those who seem deliberately determined to breed distrust of everything connected with governmental affairs, I would assume that you would pass it by unnoticed; but some professedly sane papers have referred to the matter, and some very reputable newspaper correspondents have elaborated it at some length. I therefore deem it appropriate to say that no action was taken until requests were made from business men all over the country. More requests came from Chicago than from New York. One man wrote me that he was a director in three concerns which in the aggregate had just appropriated \$12,000,000, and they were feeling anxious. Others reported being compelled to pay unusual rates of interest. Others had had time loans refused. The reserve in New York City, as shown by the weekly statement, was very low. If other cities had made a similar publication of the condition of the banks, I doubt if any east of the Pacific slope could have made as good a showing. When I did make the deposit I gave only three millions to New York City, and

this largely to the commercial as distinguished from the Wall Street banks, and I tendered an equal amount to Chicago. Two millions went to St. Louis, two to New Orleans, and the rest was scattered throughout all the principal cities of the country.

That business men generally appreciate what has been done I have abundant evidence. I inclose you two letters received in the last mail. You will recognize the writer of one at least as a very extensive importer and merchant. From his letter I quote as follows:

“Within the last few months, whenever you have come to the relief of the acute financial stringencies, the newspapers have stated in various parts of the country that you have come to the rescue of the market, or of Wall Street, or of the banking interests. From the standpoint of the business man who has absolutely nothing to do with Wall Street, or with the market, I want to say that I know your actions have been greatly appreciated by the business community generally. When I say business community, I mean principally the merchants and manufacturers. Your actions within the last several months, in relieving the acute situations, have been essentially for the benefit of the business interests of the country, and are so appreciated by the business men.”

Scores of business men within the last week have commended me personally for the action taken. A

mining operator in the copper fields of the northern peninsula of Michigan, a stranger, came to me at the hotel yesterday to thank me for what had been done. No money had been deposited nearer his home than Detroit, but he said he had been greatly relieved.

The independent treasury system, usually called the subtreasury system, gives rise to two criticisms. All during the summer the ill-advised insist that the Treasury should not absorb money which legitimately belongs to the people, but that it should make current deposits of every dollar it can spare. If this were done speculation would be invited, and when the money absorbed by speculation was needed in the fall and winter, a crash would surely ensue.

The second criticism comes when the Treasury does return to the channels of trade the money which it absorbs during the period of redundancy. In other words, those who criticise because the money is withheld in the Treasury when it is not needed outside are loudest in criticism when the Treasury does make deposits for the purpose of supplying a well-recognized need. More than once in the last five years the action of the Treasury Department has directly affected every business man who has had a foreign bill of exchange to sell or a dollar of money to borrow.

During the last twelve months the Treasury has facilitated the importation of ten carloads of gold, largely in bars. This is generally believed to be in excess of the amount appropriately belonging to the

United States, but the United States never needed money in such volume before. If you should make inquiry of the well informed I think you would find the consensus of opinion, among men competent to judge, to be that but for the action of the Treasury serious results would have ensued, and that more than once within very recent years. When panics do come the Treasury is always made the bloody angle of attack, and it is also always attacked when it prevents a panic. This is inevitable and I do not complain, but I want you to know the real facts.

The Treasury holds more money still, and it will be used for the relief of business whenever in the opinion of the head of the department the business interests demand it. But whenever anything is done in the interest of business, you must not be surprised if the ill advised join with those who have a motive in trying to create adverse sentiment.

Very truly yours,

L. M. SHAW.

THE PRESIDENT,

THE WHITE HOUSE.

TREASURY COMPARED TO CENTRAL BANK

All the leading financial countries of Europe have large central banks more or less directly under government control. Such an institution, known as the Bank of North America, was created in this country in the year 1781, but it was of short life.

A similar institution, known as the Bank of the United States of America, was incorporated in 1791, under a charter expiring in 1811 which was never renewed. Another bank with the same name was incorporated in 1816 under a twenty-years charter. In 1832 President Jackson vetoed a bill to renew this charter, and the year following directed the Secretary of the Treasury to remove government funds therefrom. In a few years it went into liquidation.

A Subtreasury act was passed in 1840 and repealed one year later. The present Treasury system was established in 1846. Innumerable Subtreasuries. reports by committees of bankers have been made, much has been spoken, and more written, in condemnation of the independent treasury system and in favor of the substitution of a large central bank patterned after the Bank of England, or the Bank of France, or the Imperial Bank of Germany. It is doubtful, however, whether our present system will ever be radically changed.

The national banking acts of 1863 and 1864, while not in terms amendatory of the independent treasury system, must be treated in connection therewith and as an addition thereto; and it seems to me wiser to perfect what we have rather than to attempt its replacement.

The National
Banking System and the
Independent
Treasury.

If the people can be brought to recognize the Treasury somewhat in the nature of a great government bank, and the national banks as branches thereof, it will be found that our system is not in

all respects unlike that of European countries. Of course the Bank of England and similar institutions can do many things that the Treasury cannot do. The Treasury cannot make commercial loans, but this is not essential. It cannot, or at least should not, accept commercial paper and issue currency therefor, but its branches—the national banks—might appropriately be permitted so to do.

So far as relates to the handling of public money and conserving commercial interests by its use in periods of great demand, and its withdrawal from the channels of trade in periods of redundancy, retarding or facilitating exports and imports of gold as conditions make advisable, the system we have, if properly operated, can be made to accomplish much of what is contemplated by those who advocate the large central bank.

Instead of criticising the present system, therefore, as awkward, cumbersome, and uncouth, it seems to me better to accept it as the settled policy of the country, and then to improve it by clothing the Secretary of the Treasury with greater discretion and enlarged powers.

The national banks of the country have shown a most commendable disposition to coöperate with the Treasury. The wish of the Secretary of the Treasury has been the pleasure of these banking institutions. Much praise has been accorded the Treasury Department for the sale of the Panama bonds, but I am pleased to bear record to the fact that the price obtained would have

The Banks Co-
operating with
the Treasury.

been impossible but for the hearty coöperation of national banks. The president of one of these institutions wrote me that his bank would buy a liberal portion of the issue and pay whatever price I thought appropriate. Others expressed more or less freely their desire to assist in placing the government obligations at a price satisfactory to the head of the Treasury.

The amount of reserve to be carried by national banks is now fixed by statute. I think it would be safe to leave this with the Secretary of the Treasury to determine from time to time as the exigencies of the case require. A statute requiring twenty-five per cent reserve in reserve cities, and fifteen per cent reserve in ordinary country banks, is to say the least a rigid provision. Evidently it was not the intention of Congress that this reserve should never be encroached upon. The term "reserve" implies that it shall be used when necessary. Bank Reserve.

If the statute required the Secretary of the Treasury to keep a reserve of ten tons of coal in the Treasury building, no one would be foolish enough to criticise its use in case of a prolonged railway blockade.

The present law authorizes the Comptroller of the Currency to notify any bank that has encroached upon its reserve to restore the same within thirty days. If the bank fail to do this, the Comptroller may, in his discretion and with the approval of the Secretary of the Treasury—that is, in the dis-

cretion of the Secretary—proceed to liquidate the bank.

This is abundant authority for the Secretary of the Treasury, in case of severe financial strain, to
 Object of a notify banks that they will not be pro-
 Reserve. ceeded against if they do protect the busi-
 ness interests of the country by encroaching upon
 their reserve. That is exactly what the reserve is for.

This has been done in only one instance, and that a very severe case. Some criticism arose from those who desired to criticise, but no lawyer ever doubted the authority, and no prominent business man ever doubted the necessity in that particular case.

In my opinion it would be both wise and safe to clothe the Secretary of the Treasury with authority

Secretary Might
 be Authorized
 to Increase or
 Permit Diminu-
 tion of Reserve.
 to require banks to increase their reserve
 at certain times when money is redundant,
 and expressly to permit the maintenance
 of a somewhat lower reserve at other
 times. Money is frequently dangerously
 plentiful in summer and dangerously scarce in the fall
 and winter. Speculation is encouraged by low rates
 of interest (sometimes below one per cent) in July
 and August, and thereby much money is absorbed
 which is subsequently needed to meet the demands
 incident to fall and winter commerce.

Coöperation among banks cannot be secured except by the direction of some one man. One banking institution will not deprive itself of legitimate profits while making provision for the future that will inure to the benefit of all alike. If this additional authority

were granted the reserve of the country could be increased in midsummer from \$50,000,000 to \$100,000,000 without prejudice to legitimate business, and in the fall and winter the ordinary reserve could be decreased. In this way a very marked element of elasticity would be provided.

I am not unmindful of the fact that the public hesitates to grant extraordinary authority, but the public now holds the head of the Treasury Department largely responsible for business conditions. This being true, and justly true, it is only fair that he be given ample authority and enlarged discretion.

—BEFORE THE STATE BANKERS' ASSOCIATION, LOUISVILLE, KY., OCTOBER 10, 1906.

NEEDS OF ENTIRE COUNTRY CONSIDERED

In December, 1906, a prominent business man of Memphis, Tenn., wrote to the Secretary and received in reply the following:

MY DEAR SIR: I am in receipt of your letter of the 21st from St. Louis.

You will pardon me if I suggest that you have made a very common mistake in assuming that the Secretaries of the Treasury listen to "bankers and Wall Street gamblers." The Secretaries do notice, however, the condition of the country. You might as well complain of a physician who feels the pulse at the wrist to discover whether there is blood-poisoning resulting from an injury at the base of the brain.

He does not care for the wrist, but is anxious for the effect of the difficulty upon the entire system.

You suggest that banks want high rates of interest and therefore bring on panics. As a result of the last serious panic the bank of which Secretary Gage was then president charged a clean million dollars to profit and loss. There is scarcely a bank in the United States that made a penny during that time. During the last few years, when money has been plenty, the banks have paid unprecedented dividends. There are no people who are so anxious for good times as bankers, and no people who fear a panic so much as they. Having started out with wrong premises it is not surprising that your reasoning is defective. The banks as a rule are not asking for an elastic currency. There are no people in the world as conservative as bankers, and no people so dread any modification of the law or innovation. They want things to continue just as they are. They dread any change.

Just one thing more. You speak of Wall Street gamblers. They are no worse and no better than that class of gamblers who by the thousand in the last year have bought everything in sight and gone headlong into debt for the sake of speculating in nonproductive, agricultural, mineral, and timber lands, all the way from the Gulf to the Arctic Circle. The Wall Street gambler has generally bought something that he can sell. The class I have described have bought something they cannot sell. Both have endangered the prosperity of the entire country. I

have no sympathy with either, but to denounce the one is exceedingly cheap.

The tone of your letter indicates an intelligence which ought to lead to the avoidance of the error committed by those less favored than yourself.

Now I have written very plainly, but very kindly, and would be glad to hear from you, and to have you call at the office when you are in the city.

PART IX
MISCELLANEOUS TOPICS

XLII

THE PANAMA CANAL

A LETTER TO THE PRESIDENT

WASHINGTON, D. C., October 17, 1905.

MY DEAR MR. PRESIDENT: At the risk of appearing officious I beg to submit a few suggestions with reference to the construction of the Panama Canal. In extenuation I plead my anxiety for the success of your administration not only in the present, but that time shall justify the high esteem in which it is now universally held. What I say must not be understood as in any manner criticising or calling in question the wisdom of the policy thus far pursued. You will also recognize that what I submit is along the line of suggestions made to you about the time that it was proposed to operate a line of steamships and to purchase materials and supplies wherever most favorable markets could be found.

I have never builded an isthmian canal, and therefore do not know how isthmian canals should be built. But, unfortunately, no one has ever builded an isthmian canal, and therefore no one knows the best way to build them. The fact that no one knows

the best method gives rise to every possible shade of opinion concerning the great enterprise. I plead innocence of any engineering knowledge or experience, but I have observed some things. A large number of railroads have been constructed during my lifetime, some large and some small, but I have never known one to be begun until the grade was established, the height and depth of every cut and fill determined, the length of span of each bridge known, and a profile of the road with the number of cubic yards of earth and rock to be moved, on the table for the inspection of the board. I have known of roads being constructed from the Missouri River to the Pacific Ocean, but I have never known a road to purchase a line of steamships or a transcontinental line of railroad on which to transport its material. The roads of which I have had knowledge have all purchased their transportation in the transportation market, believing they could purchase it much cheaper than they could produce it.

I have never known a road small enough to justify a board of directors in attempting to build an organization large enough to construct the road. All the roads of which I have had any knowledge have been let and sublet under contract on the same policy pursued by all cities and municipalities in the construction of sidewalks, paving, and other internal improvements.

If my advice were asked I would promptly say, sell the steamships and secure by sealed bids the best possible rates for the Government and the govern-

ment contractors from the principal ports of the United States to either end of the canal. This will avoid a great organization operating a line of steamships, with its necessary red tape and the possible danger of padded pay-rolls and other scandals.

We have purchased the Panama Railroad, which is wise. If I were to advise in the premises I would say lease it and secure to the Government and the government contractors the best possible terms, and then permit it to charge the public what is right. This would avoid another organization operating a line of railroad with its necessary red tape and incident danger of scandals. Another reason is the fact that transcontinental railroads universally, so far as I know, favor the construction of the Isthmian Canal in the belief that its completion will increase commerce to their advantage; but I doubt if any of them will favor the transportation of merchandise across the isthmus at cost or below, to the congestion of the isthmus, the delay of the canal, and the prejudice of the roads pending the completion of the canal. If nothing else is accomplished you will avoid inviting opposition from this source. Then, as soon as the grade of the canal and the plans and specifications can be completed, let the contract in as many separate portions as possible. Contractors and not the Government should be involved in questions of importation of laborers, the determination of the number of hours in a day's work, the amount and character of food, and similar sources of annoyance.

If I am rightly advised the State capitol at

Albany was far enough advanced to permit the holding of a ball within the structure in the seventies. Four generations of men worked on the building, and it was completed in 1899, notwithstanding the fact that part of the work was done under contract. The city of Philadelphia laid the corner-stone of its city hall Centennial year [1876]. Some portion of it may have been builded under contract, but the structure was completed in 1901. John B. McDonald took the contract for the subways in New York City, but he recognized that no one man could build an organization large enough to construct the subway, so he sublet it to people who respectively were able to build an organization large enough for a mile or more, or perhaps less. Had the city of New York attempted to build the subway by hiring the workmen, undoubtedly it would have taken one hundred years.

After everything is unloaded that it is possible to dispose of, the Government will have left all for which any administration will care to be responsible. It must then needs keep a large corps of civil engineers to see that the work is done according to plans and specifications, and that payments are made no faster than earned. It will also be necessary to maintain a large force of sanitary engineers to see that the canal strip is in every possible way protected from contagious and infectious diseases.

Now, my dear Mr. President, this uninvited communication needs no reply. There may be abundant reasons why the suggestions cannot be carried out,

and there may be reasons why they should not be carried out. My excuse for submitting them is that they have been impressed upon my mind more and more as the months have gone by, until I have felt that I would not be true to you if I did not submit them, and as the subject has never been a matter for Cabinet discussion, I have deemed it not altogether inappropriate to communicate them in this way.

Very truly yours,

L. M. SHAW.

THE PRESIDENT,

THE WHITE HOUSE.

XLIII

OUR PHILIPPINE POLICY

OUR political opponents find much fault with our policy with reference to the Philippine Islands. I am not prepared to defend the course of my party as against every other possible policy, but as between what we are doing and what our opponents propose to do, I welcome the fullest discussion, and I fear not the issue.

It would be exceedingly strange if the policy adopted should need no modification. The acquisition of the Philippine Islands was sudden and unpremeditated. The United States had never had experience with colonial possessions of any character, nor with tropical races. Without consulting the experience of other countries, or following their example, we hastily and, I think I may say, intuitively adopted a new, original, and untried course, from which we have not thus far deviated to any appreciable extent.

We are seeking to develop a republic over there, and the material with which we are building had never so much as dreamed of self-government as understood by the Anglo-Saxon and Teutonic races. Their conception of independence and self-government is well

expressed in resolutions adopted a few years ago by the Independence Party, in which it was solemnly declared that there were educated Filipinos enough to hold all the offices, and that the "uneducated were easily governed."

A republic is based upon the principle that there are no subjects, and the experiment is a success or failure not according to the ease with which the people are governed, but in proportion as they possess the instincts of self-government. Capacity for self-government is a misleading term. Something more is required than education; something more than intellectuality; something more than moral instincts. It has been said of a certain country that it is a republic, but that its people are not republicans. Of course the term is here used in its broad sense and not politically. It requires something more than a town meeting to make a republic.

Our political opponents demand that a date shall be fixed when a new flag shall be swung to the breeze, and that thereafter the United States shall maintain a protectorate to insure against interference from without. The dominant party promises to protect from within, thus making sure that there be neither outside interference nor internal insurrection. They propose that we take hands off while they work out their own destiny; we promise to keep hands on and help them work out their destiny. They propose a solemn pledge that at a given date a new republic shall be launched. We promise to educate, instruct, demonstrate, explain, in

short to aid in their evolution until the time arrives when a new republic can be safely launched.

I know very little of the Philippine Islands; I have never been there. I have read some expert testimony concerning them, but expert testimony on this subject, like expert testimony on every other subject, is conflicting and very unsatisfactory. I have heard it said that a good judge must possess the sixth sense, by which is meant a capacity to arrive at the truth regardless of the testimony. From known facts only can safe conclusions be drawn.

I know that the Anglo-Saxon and Teutonic races have a conception of government quite distinct from that prevailing with other races. They have the accusatorial trial, and the same general ideas concerning the elementary rights of man. The Latin races generally have the inquisitorial trial, and possess their own peculiar conceptions of liberty and of the elementary rights of man. I know that the Caucasian, under the most adverse conditions, has a very different conception of these underlying principles from that of the Malay. I also know that if there be a place in Europe where Americans do not expect to see the tree of liberty in full bloom that place is Spain. Now, take the Philippine Islands; people them with Malays, and let Spain teach them for three hundred years, and you have the Filipinos. They may be ready for self-government, but I do not believe it. They may be well on the road toward self-government, but I doubt it. It required sixty centuries to

Racial Con-
ceptions of
Government.

develop a people into whose hands God thought it safe to commit their own political destinies, and even then the world doubted the wisdom of the experiment. They thought it would be impossible for men differing in political opinion to walk side by side to the polls, cast opposing ballots, and then each demand for the other the same integrity of count as he claimed for himself.

We are now a century and a quarter old, but we have all read of, and some have witnessed, instances where this high conception has not been exemplified. We have seen deliberate attempts to disfranchise the minority. To the extent that these things are indulged, self-government is a failure. If such methods can be occasionally resorted to in this country, now by one party organization and occasionally by another, what reason have we to hope for the early triumph of the principles of self-government with an alien race, situated in the tropics, wholly unfamiliar with the underlying principles of a republican form of government?

If it should ever be found necessary to change our policy, I believe the plan adopted will be to Americanize the Islands. We developed Americanizing the Islands. the western half of the United States through a policy of liberality to the promoter. We gave every man who would enter this territory every opportunity to eat the legitimate fruit of his enterprise. I do not know that Americans would ever go in numbers to the Philippine Islands. I am convinced they will not go under the present policy of preserv-

ing the Philippine Islands for the Filipinos. I, for one, do not believe that the presence of Americans in the Islands would be harmful to the natives, or detrimental to the cause of liberty.

If our political opponents want an issue with some chance of success, let them announce that the Philippine Islands are to be Americanized; that no longer than necessary will we have possessions where the English language is not the household tongue, where United States money is not the coin of commerce, where our literature is not dominant, and where the spirit is not American, and that whatsoever may be necessary to Americanize the Islands will be done.

It goes without saying that the United States will never take from the Filipinos their property, or encroach upon their rights. The most we will ever do, and we may not do that, is to share with them the wonderful opportunities and marvelous resources of those Islands. Taking an active part in their development is not cruelty but helpfulness. A joint interest with enterprising people in a great resource is frequently more valuable than a monopoly, and this joint interest shall always be both their right and their privilege.

I dare not predict the ultimate destiny of the Islands, or of their people. I would not dare write out and sign a prophecy concerning them; give it to my son to be given to my grandson, to demonstrate how farsighted I had been. I will write out this, however, and sign it, to be

Property Rights
Will Be
Respected.

A Prophecy.

opened fifty years hence, and I will say that regardless of which political party may hold supremacy, so long as American blood has red corpuscles in it, so long as the American people will love liberty and justice and both respect and defend human rights, and that so long as our flag contains a galaxy of stars upon a field of blue, so long that emblem will stand for equal rights and justice according to law. If this prediction be not realized my descendants may turn my face to the wall.

I do not know how I can better illustrate the conditions surrounding our acquisition of the Philippine Islands, and our policy with reference to the inhabitants thereof, than by —a Parable. The Philippines
the following parable in which, with your permission, I will represent the United States Government.

I have a neighbor who causes me much annoyance. For ten years, twenty years, fifty years, aye, for one hundred years, I have heard the cry of murder every night and seen fresh blood on the doorstep every morning. Perhaps I wait too long; perhaps I am in too great haste; but the time comes—it is the early spring of 1898—when I put on my hat and say to my family, “I am going across the way and settle that disturbance with this right arm.” Every member of my family encourages me to go. The vote was unanimous in both Houses of Congress. I cross over. I am gone one hundred and twenty days; I settle the disturbance, but when I return I have a baby in the other arm. I wish I had never seen the little brat, but I dare not lay it down.

The time to hesitate was before I crossed the street. Unless I am a consummate coward, I will now meet the responsibility that has come to me unplanned, unsought, and unwelcomed.

I call my family around me and inquire what I had better do with the unwelcome ward. My son says: "Adopt him into the family at once; make him kith and kin with me. Let the Constitution follow the flag." There was much to be said in favor of that policy. My little girl says: "No, I do not like him; I do not like his complexion nor the sound of his voice; have nothing to do with him." She asks me to give him away. "To whom?" "Oh, to Grandmother England, or Aunt Germany, or Mrs. France. Leave him by the wayside." Much has been said in favor of such a policy. I ask my wife. She says: "Blood is thicker than water. We will not adopt him. We might regret it. We will not give him away, or leave him by the wayside, for we will be responsible for the home we put him in or the home he falls into. If there be no way to escape the responsibility which has come unsought, unplanned, and unwelcomed we will take him to rear, and when he is grown then we will decide. If he does well, we can, if we please, adopt him into the family. If we choose, we can dispose of him. If we think best, we can start him for himself. In the meantime we will give him appropriate and tasteful surroundings, a clean and wholesome cradle. We will care for him, teach him, and watch his development. It will be an expensive experiment. But,"

she says, "we are richer than Cræsus," and reverently adds that the good God has not given us all this wealth for ourselves alone. "It will be expensive to us, but of infinite advantage to the child." I follow her advice; but the first time I go near the cradle the youngster begins to scream and yell and kick and fight and bite. So I punish him gently but firmly. There was nothing else to do.

If you were to find a waif on your doorstep to-morrow morning, and if you consented to accept the responsibility, would you withhold punishment at the first and at every exhibition of disobedience and rebellion? But it is all over now; my ward is contented and happy, and to all appearance doing as well as I have reason to expect, considering his antecedents. So I do not blush when I look into the face of my ward. And when I realize that nowhere, beneath no sky and in no language, was there ever such disinterestedness as I have exhibited toward the Philip-pines, I do not blush when I look into the face of the world.

I have a dream; it may or may never be realized. Permit me to make a few lines on the canvas; you can fill out the picture at your leisure. We need a title. Go with me to the constitutional convention. Benjamin Frank-
lin is there. He was never a churchman; always a free thinker. He is eighty-one years of age; his gray hair hanging down his shoulders; bowed with years and ripe with wisdom. He rises and says in effect (I regret that I do not have his exact language):

A New and
Better
Civilization.

"Those of us who have gone through the recent struggle cannot but realize that many of our deliverances were providential. The older I grow, sir, the more convinced I am that God rules in the affairs of men. And if a sparrow cannot fall without His notice, is it probable that an empire will rise without His aid? I therefore move you, sir, that the future sessions of this convention be opened with prayer."

With this sentiment before us, go back two thousand years, and we find the then known nations of the world struggling for naval and commercial supremacy on the land-locked seas of Southern Europe and Western Asia. They are small as compared with what we now call world powers. They have little boats which they row by hand and they fight with bows and arrows and spears. They have standards of intelligence not very high, and standards of morals very low. They have scarcely a name for what we call liberty, and scant regard for the rights of man. They build great cities and wall them, and dare not live outside. But they evolve; they turn their faces toward the light; they dream of better things; then they cross over the Alps and the Pyrenees and they row across the English Channel. Here they build a new and a better civilization. They, too, build large cities and wall them and dare not live outside. They improve their arts of war and the size of their ships. They elevate somewhat their standards of intelligence and morals. They cultivate that plant called liberty. They turn their faces

toward the light; they, too, dream of better things. Then they build outside the walls of their cities; they expand; they cover the continent; and when it seems there was no more room for expansion, suddenly, unplanned and unexpectedly, but in the fullness of time, you and I believe that God whispered in the ear of Christopher Columbus, and he sailed across a trackless sea and discovered a new continent. And you and I believe that God in His inscrutable way reached out His hand and, from the then ripest and best harvests of all the world, plucked the best seed with which to plant this then new West. Here we have evolved a new and a better civilization. We, too, have builded large cities, but have not walled them, and we walk the length of a continent unarmed and unmolested. We have brought to flower the tree called liberty. We have advanced the arts and sciences. We have gone into the bowels of the earth and plucked the secrets that it would seem God had sought to hide from His children. We have gone into the skies and put a bit into the teeth of the clouds and made the lightnings the toy of our children. We have done all this; we have covered the continent—when suddenly, unexpectedly, unplanned, and unwelcomed, but in the fullness of time, this struggle for naval and commercial supremacy has left the land-locked seas of Southern Europe and Western Asia, it has gone across the Atlantic, out upon the broad Pacific. And shall you and I now wonder if God shall again reach forth His hand, and from the now best and ripest harvest of all the earth

pluck the best seed to plant this now new West? Shall you and I wonder if yonder under a brighter sun, beneath a more congenial sky, upon a more fertile plain, there shall be evolved a yet better civilization, higher standards, more and more regard for the rights of man, loftier conceptions and more God-like consummations? Shall we wonder or object if all of this shall be accomplished beneath the stars and stripes that never cast a shadow upon any land, and never waved above any people except to bless them, and, blessed be God, it never shall?

—AT CHICAGO, 1900.

XLIV

CIVIL SERVICE RETIREMENT

AT the request of the Civil Service Retirement Association, of Washington, Mr. Shaw submitted the following on January 24, 1906:

In discussing civil service retirement two objects must be kept in mind: first, the good of the service, and, second, the good of the servant.

I know of no labor more emphatically drudgery than that performed by a large majority of government clerks. Most of the world's toilers are permitted to witness affirmative results, the inspiration of which is most helpful. Not so with the government clerk.

Work of the
Government
Clerk.

It is drudgery to plant, to till, to harvest, but the character of work changes with the seasons, while hope and fruition afford constant inspiration. It is drudgery to grade a railroad or to improve the track, but seeing the work progress is an ever-present incentive. It is drudgery to sell goods or to keep books in a bank, but the hope of increased profits to the concern are never wanting. But the work of the government clerk neither changes with the seasons nor materially improves in character, and it yields no profit to the Government.

Pension vouchers, for example, arrive at the Treasury Department by the ton. Clerks compare these with the corresponding certificates to see that right amounts have been paid, signatures are examined to make sure that the payments have been made to proper persons, but the clerks that do these things know neither the pension agent who made the payments nor the pensioners who received them. Year in and year out they make comparisons and do nothing else. The point I wish to emphasize is, that it is impossible to get, from perfunctory government work, that reflex influence so helpful in the upbuilding and development of the individual. There is no opportunity to exercise the initiative, and the trend is constantly in the direction of transforming the clerk from a thinking, planning, executive being into a mere machine.

This is not a criticism of the operatives. I simply refer to the facts as a foundation for a suggestion. The wonder is that so many survive, and that a few do actually climb in the scale of efficient service.

Looking solely to the interest of these clerks, I believe their lot in life would be improved by a provision limiting their term of service to a period not exceeding six years; and I know the government service would be thereby very greatly improved.

One tendency in the government service is to look upon one's position as a vested right terminable only at death. The logic of such a view tends to anything but thrift and self-discipline.

Destroys

Initiative.

A Limited

Period of Service Proposed.

The consciousness that under the present policy of permanent appointments the tenure of their positions is secure, except for gross wrongdoing or utter and complete inefficiency, is not to self-reliance a spur. Naturally, the atmosphere of the departments is that of security and dependence upon the Government. A majority of those in the public service would be glad even to have the Government act as their guardian, withholding a portion of their salary, to be doled out to them in after life in the form of an annuity. I can think of nothing worse than a government guardian.

If the clerks were selected, as at present, by competitive examination, and should then enter knowing that at the end of a definite period their term of service would end, many of them would take advantage of the splendid opportunity which Washington offers to complete a college course, and then at the end of the term they could go back to their homes equipped under the most advantageous surroundings. Conscious of the permanent character of their present appointments, they now seldom either get an education or save anything. The atmosphere of the departments is that of security and dependence on the Government.

It is a great thing to spend a few years at the Capital of the great Republic, to catch the inspiration of its history, to observe national legislators for a period, and note the character and demeanor of those who serve in important administrative positions. Four years at Washington is an education. So is four years in col-

A Few Years
at Washington
an Education.

lege; but thirty years in a clerical position in one of the departments has about the same effect as thirty years in the same schoolroom would have if the same lessons were taken over and over and recited again and again to the same instructors. College professors have not always been able to retain their mental acuteness for any great number of years, notwithstanding the constant inspiration that comes from ever-changing classes. If they were to have the same pupils indefinitely, and teach the same lessons year after year, they would be about as likely to grow and expand as the average government clerk.

The practice of sending the boy to kindergarten at four years of age, and keeping him in the schoolroom with no outside experiences and out of touch with the business world until he graduates from college, is not conducive to the best results. The olden method of staying out to teach a term or two, spending a year in business in the midst of the course, and thus getting some practical, as well as lecture-room experience, possessed many advantages. I would rather chance the young man who had worked seven hours per day for the Government, and acquired his college education after hours, than one who sees nothing practical until he is through with everything not practical.

In every city, and in almost every country town, there are deserving young people who would gladly seize an opportunity to work their way through college. Thus I plead for the boys at home and for the boys who

To Give Those
at Home a
Chance.

enter Government service. One class is now barred from what it has a just right to demand—an opportunity to serve the Government for a short period. The other is kept indefinitely in the government service. As between the two, I confess I congratulate those who are barred.

If government positions are desirable—and they surely would be if for a brief and definite term—why allow the few who get them to hold for life to their abiding harm, while they might be widely distributed? Think what a commercial school the Government would thus conduct, and the number of young men and women who would be educated therein, and the public service wonderfully improved withal. Promotions would be rapid. The average clerk would naturally be advanced from \$720 to \$1,400, or \$1,800, in five years. The business world would soon learn to look to these graduates for reliable material. Fifteen hundred would annually retire from Washington alone. Knowing their term to be limited they would have mastered the art of saving, an art that adds greatly to the efficiency of any employee.

Government
Positions Des-
irable if for a
Brief Term.

Engravers, draughtsmen, and scientists in all the government departments get inspiration from their work, and they could safely be exempted from the suggested limitations. The ordinary clerk, however, will do as much purely routine work at the expiration of three as at the end of fifteen years. Unfortunately for them, however, older

Exceptions.

clerks stand in the way of their promotion, and by the time the old ones die the new ones are started on their decline. Clerks, of course, are not required to stay longer than they wish, but public service is not calculated to develop self-reliance, and the day never arrives in the lives of most when they voluntarily relinquish a government position for one temporarily less remunerative, whatever may be the possibilities of ultimate advancement.

There should be one other exception: On the recommendation of the head of the department, the

Favoritism.

President should have authority by executive order to retain a few of those who have shown unusual aptitude for government work for chiefs of divisions. There should be no other exceptions. While the element of favoritism might, and naturally would, have some influence, the same element has influence now. It is impossible to prevent personal likes and dislikes running through the departments, and influencing recommendations by chiefs of divisions, heads of bureaus, assistant secretaries, and secretaries themselves. Nevertheless, the departments are as free from favoritism as it is possible to make them under present conditions, and the changes I have recommended, notwithstanding the few authorized exceptions from the otherwise iron-clad rule, would tend to improve the service even in this particular.

SOME PARTY PRINCIPLES

XLV

OURS A GOVERNMENT BY PARTY

OUR Government is a government by parties. It is both impracticable and impossible to have it otherwise. We read that in olden times countries prospered or languished, advanced or retrograded, according to the character of their rulers. In the United States we prosper or languish, advance or retrograde, not according to the character of our Chief Executive, but according to the wisdom, or lack of wisdom, of the party in power. We prospered during Mr. Cleveland's first administration and languished during his last administration, not because the Chief Executive was wise in the '80's and unwise in the '90's. We prospered during the former because the Senate remained Republican, and Republican legislation and Republican policies prevailed, and we languished during the latter because Democratic policies then prevailed.

The remarkable prosperity, the unprecedented prosperity, which we have enjoyed for the last nine years is traceable only in small degree to the individual wisdom, great as it was, of William McKinley, and to the

Wise Policies
Bring Good
Results.

individual wisdom, great as it is, of Theodore Roosevelt. Our prosperity has been dependent in larger degree than most men imagine upon the wise policies of the party which placed these men at the head of our national affairs.

No man, however strong or however honest, could have stayed disaster under the party policies that prevailed from 1892 to 1896, and no man, however weak or however corrupt, could have stayed prosperity under the wise legislation that has prevailed for nearly a decade.

I would not detract from or minimize the effect of wise leadership, but wise leadership is worthless without wise following.

I regret the present trend toward party disorganization. I regret that the Democratic Party is so unorganized—rather than disorganized—and thus devoid of issue or policy or plan or purpose. I also regret the manifest relaxation of party loyalty among Republicans. Abolish parties and we will have a most deplorable condition.

—NEWTON, IA., JUNE, 1906.

XLVI

SOME POLITICAL HISTORY

MR. SHAW, speaking at Oswego, N. Y., on October 10, 1904, where special invitation had been extended to the students in attendance at the State Normal and Training School, said in part:

I feel myself honored in being permitted to address so many students of the State Normal and Training School on political issues. I commend your wisdom in attending political meetings and in the study of political subjects. Standard and
Citizenship. Whatever may be your choice of profession or occupation, you are to be, first of all, citizens. If it be worth your while to fit yourselves for secular duties, it is equally important that you be equipped for citizenship. There are some responsibilities which you can escape, but you cannot abdicate, and you must not shirk; the duties and responsibilities which the word citizen implies. Flatter not yourselves that only those who follow the flag on gory fields, and those who are selected to representative positions, can contribute to the perpetuity of the Government or the glory of the nation. As patriotic courage can be exercised in the home, in the market places, and in

every time of commercial and industrial panic, as well as on the battlefield, so the same standard of patriotic statesmanship can be exercised at the polls as is demanded in legislative forums.

Very likely you have ere this observed that there is less difference in the individual adherents of the **Political Parties** several parties than in the parties themselves. If any of you young men are **Stand for Political Principles.** laboring under the impression, because there are good and bad men in all parties, therefore all political parties are about alike, or that it is by accident that one party is wise and the other unwise in a given campaign, I beg that you dispel that delusion. Political parties stand for political principles, and a political principle is a definite and definable economic or governmental policy. When aggregations of men possessing every possible phase of political belief, but with such scant political conviction that an accidental platform adopted by a bare majority, now for, now against, and then silent upon questions involving the happiness of every home in the land, will control their fealty, it is rather by courtesy than for the sake of academic exactness that they are still called *political* parties.

The only criticism I ever make of the opposition party is that its leaders have always evinced, and still manifest, greater anxiety to discover **Hunting Issues.** an issue on which a campaign may be won than in formulating wise policies for the advancement of the nation in things economic or in matters governmental, after they shall have won their cam-

paign. In support of this criticism permit a few of the many historic illustrations.

The Democratic Party first met in national convention in 1832, but fearing to declare An Accommodating Spirit. for anything, and deeming it unwise to declare against anything, it passed the following resolution:

“Resolved, That it be recommended that in place of a general address from this body [platform], the several delegations in this convention make such declaration by address, report, or otherwise, to their respective constituents of the objects, proceedings, and result of this meeting as they may deem expedient.”

In 1844 the Democratic Party did make a clear-cut and unqualified declaration and promise, but it was violated the moment the party came into power. The following is from their resolutions adopted that year:

Platform Not Carried Out.

“Resolved, That our title to the whole of the territory of Oregon is clear and unquestioned; that no portion of the same ought to be ceded to England or any other power.”

The slogan of the party in that year was “Fifty-Four Forty or Fight.” The lion of the party of that day and this roared from the Hermitage, “No compromise but at the cannon’s mouth.” But as soon as the party obtained the reins

“Fifty-Four Forty or Fight.”

of power it negotiated the surrender of a third of the disputed territory.

The platform of that year declared neither for nor against protection or free trade. The convention nominated James K. Polk, a noncommittal free trader of Tennessee, and George M. Dallas, a supposed protectionist of Pennsylvania. In Pennsylvania, and perhaps elsewhere, the common slogan employed was, "Polk, Dallas, and the Tariff of 1842." But in the South it was, "Polk, Dallas, and Free Trade." In the absence of quick transportation of daily papers, and with no telegraphic facilities, this was feasible, and what is feasible may be expedient; and what is expedient was what the first Democratic platform recommended.

The tariff of 1842 was a protective tariff, and its result upon the condition of this country was admirably described in President Polk's message at the very session in which it was repealed by a law signed and approved by himself. The following is from his message of 1845:

"Labor, in all its branches, is receiving an ample reward, while education, science, and the arts are rapidly enlarging the means of social happiness. The progress of our country in her career of greatness, not only in the vast extension of her territorial limits and in the rapid increase of our population, but in resources and wealth and in the happy con-

dition of our people, is without an example in the history of nations."

The conditions preceding the protective tariff of 1842 were as much worse than conditions preceding the Dingley Tariff as it is possible for man to conceive; but the result of the two protective measures appears to have been about the same.

Polk and Dallas were elected, and the protective tariff law of 1842 was repealed, and the panic of 1857, though delayed by reason of the Mexican War, the discovery of gold in California, and the Crimean War, followed as the logical, irresistible, and inevitable sequence of a tariff for revenue only.

Tariff of 1846
—Panic of
1857.

In 1848 the Democratic Party mentioned as one of the "fruits of the great political triumph of 1844 the noble impulse given the cause of free trade by the repeal of the tariff of 1842." This utterance was reaffirmed in 1856, and again in 1860, in which year an additional paragraph was added, declaring in favor of "free seas and progressive free trade throughout the world."

Its next revenue utterance was in 1868, when the party's purpose, if a purpose it had, was concealed behind a demand "for a tariff for revenue upon foreign imports, and such equal taxation under internal revenue laws as will afford incidental protection to domestic manufactures, and as will, without impairing the revenue, impose the

An Ambiguous
Declaration.

least burden upon and best promote and encourage the great industrial interests of the country."

If anyone present can square this party utterance with either protection or free trade, and its synonym tariff for revenue only, as taught in the books, I will gladly pay his expenses to Washington to listen to his elucidation.

Two years later, in 1872, the same policy of evasion resulted in the following Democratic resolution:

"Recognizing that there is in our midst honest but irreconcilable differences of opinion with regard to the respective systems of protection and free trade, we remit the discussion of the subject to the people in their congressional districts."

This, you will observe, is in strictest harmony with the party's first resolution where each delegation was directed to make such report to its constituents as might be "deemed expedient," and also with the telegram sent Judge Parker advising him, and through him the country, that "only campaign issues were mentioned in the platform." It is also in harmony with all the intervening history of the party.

The last platform on which the Democratic Party scored a victory declared it to be a "fundamental principle of the Democratic Party that the Federal Government has no constitutional authority to levy or to collect tariff duties

Declaration
in 1892.

except for purposes of revenue only," and also denounced "Republican protection as a fraud and a robbery of the majority for the benefit of a few." It thus declared the principle of protection unconstitutional and its practice vicious. But the Wilson-Gorman bill, enacted by those elected upon this platform, contained some high protective schedules, more low protective schedules, but enough free-trade schedules to insure universal disaster. Since our industries all thrive or languish together, the result was well-nigh as ruinous as though the Democratic Congress had considered itself bound by the Democratic platform. Indeed, the bill contained so many protective features that President Cleveland, a consistent free trader, declared it full of "perfidy and dishonor," and allowed it to become a law without his signature, thus giving evidence that among the personnel of the party there are those who have political convictions and who square their conduct thereby.

Finding in the record of its past nothing for which it had ever declared, and nothing that it had ever declared against, that could be used as the paramount issue in 1896, the Democratic Party in that year held its convention in advance of the Populist convention and demanded free and unlimited silver. This had been the issue of the Populists in the preceding campaign, and it was the property of the Populist Party in 1896, as it had been in 1892. Its espousal by the Democratic Party was a matter of

Party for Free
Coinage of
Silver.

expediency, and I doubt not a million men cast their votes in its support for the sole purpose of being regular, and whose greatest anxiety was lest they might be successful and the party platform carried out.

Consistent with its policy of expediency the Democratic platforms of 1896 and 1900 were silent on the principles involved in tariff legislation. The recollection of recent experiences was too vividly in the minds of the American people to make prudent another wholesale denunciation of protective tariffs so soon; but no measure of prosperity or success under a Republican administration need ever be expected to call for a word of approval of the principles and policies which have logically, irresistibly, and inevitably brought the prosperity.

But this year [1904], after a prolonged contest between the antagonistic elements of the party, being unable to agree that the adoption of the gold standard was a wise solution of the money question, and being likewise unable to agree that the free coinage of silver would be a wiser solution, it was deemed expedient that the platform be silent on the money question, and that the experiment be tried of again denouncing protection as "robbery of the many to enrich the few."

Some declaration on the currency question having been demanded by the nominee, the following resolution was adopted by the convention by a vote of four to one:

"The platform adopted by this convention is silent on the question of the monetary standard, because it is not regarded by us as a possible issue in this campaign, and only campaign issues were mentioned in the platform."

I submit, gentlemen, it ill becomes a self-respecting young man to support a platform which contains the issues good only during a campaign. Similar conduct is traceable in each and every campaign since the Democratic Party was organized. The birth-mark of expediency has ever been visible.

I have said quite enough to show what is meant by old-time Democratic principles. You now know of what Jacksonian Democracy consists, and, knowing that, you will not be surprised at the language employed by one of the grandest specimens of American manhood which it was ever my pleasure to meet, but who in early life, because of local environments, allied himself with the opposition party, and rendered his retreat well-nigh impossible by accepting from time to time the highest honors within the gift of his State. He said to a friend of mine, during the campaign of 1900:

"I have spent my life in the service of the Democratic Party, and now, an old man, I look back and find on the statute books no law which has helped to make my country what it is that my party is responsible for."

When you cast your first vote is the best time to escape a like regrettable experience. You, young gen-

tle men, having fitted yourselves for useful citizenship, will fail to find within the ranks of the opposition party sustained inspiration to the continued exercise of your best and most patriotic endeavor.

That individual Republicans differ as to the wisdom of certain tariff schedules must be admitted, but they do not differ concerning the constitutionality of protection as a principle, or the wisdom of protection as a policy. Every Republican likewise believes in the single gold standard, though there be some difference of opinion as to the details of necessary legislation to make the gold standard effective and efficient. The Republican Party is united upon the general policy of insular administration within the Philippine Islands, though the details of administration afford occasion for deliberation.

The Democratic Party, on the contrary, is divided on the money question, the tariff question, the insular question, and every other subject that can possibly arise, and this divergence relates to the principles involved as well as to the details of advisable legislation. A young man of education ought to believe something, and he ought to know what he believes; and he ought to believe the same thing during more than one campaign, and he ought to maintain his conviction independent of transitory party platforms.

XLVII

REPLY TO MR. BRYAN

THE speech made by William Jennings Bryan at Madison Square Garden, August 30, 1906, on his return from abroad, was reviewed by Mr. Shaw at Memphis, Tenn., September 15, 1906. His speech follows:

For some time it has been well-nigh universally conceded that the Democratic standard bearer for 1908 is as good as named. For months his every movement has been promptly chronicled, and the date of his return was widely advertised. No private citizen ever was given so cordial a welcome or ever received such an ovation as was accorded William Jennings Bryan, editor, farmer, and politician, at the city of New York on August 30, when the applause following his introduction at Madison Square Garden is reported to have continued for eight minutes by the watch. The speech which followed had been heralded and is now accepted as the keynote, not only of the present Congressional campaign, but of that larger campaign two years hence.

I did not have the pleasure of listening to the speech, but I have read it. I have read it twice.

Yes, I have read it three times. I personally like its author. I admire his oratorical ability and I enjoy sitting and watching the effect of his eloquence upon others. In his Madison Square Garden speech I easily recognized our friend of 1896 without a single subtraction and with several additions.

He still favors bimetallism, which, in his vocabulary, means the free and unlimited coinage of silver at the ratio of sixteen to one with gold. Adhering to Bimetallism. The use of both gold and silver in quantity sufficient to supply every public need—every demand—the parity and exchangeability of the latter amply safeguarded by wise and efficient legislation, does not satisfy the twice-defeated candidate upon a paramount issue selected, yes, dictated, by himself.

After referring to the “unlooked-for and unprecedented increase in the production of gold,” to which he impliedly attributes our present prosperity, he uses this phrase, in which the present tense is noticeable: “We who favor bimetallism are satisfied with our victory.” Thus he gives notice that should the production of gold suddenly decrease he will renew his efforts for the debasement of our currency, and again advocate the abandonment of every effort to maintain parity between the several forms of money coined or issued by the Government. He will advocate again the coinage of both gold and silver unlimitedly and let them circulate according to their respective metallic values.

It is axiomatic that a coin which the Government coins in unlimited quantity and without expense to

the owner of the metal of which it is made will be worth exactly the same as the material consumed. This is true of gold coins, and free and unlimited coinage of any other metal would have the same effect on coins made therefrom. Bimetallism, as taught by Mr. Bryan, would ruin every business between the seas, and its effect on labor would be more baneful still.

Mr. Bryan was reported to have said on his return from a previous trip abroad that he had obtained one new idea during his journeyings. His recent search evidently has been more fruitful of results. He even boasts of having searched Japan and every other country visited by him for something to bring back for incorporation either into organic law or legislative enactment, or for introduction into the habits and customs of our people.

Would Improve the Constitution.

He thinks our Constitution should be so amended as to convene Congress soon after election in imitation of England.

He thinks the founders of the Government made a mistake in placing the election of the United States Senators in a responsible oath-bound body, and that it should be transferred to an unfettered and unpunishable political convention. To accomplish this he would again amend the Constitution.

He thinks still another provision of the organic law was ill advisedly inserted by the Fathers, and recommends a third amendment to the Constitution removing its inhibition of direct taxation so as to

grant Congress greater latitude in the collection of revenues, in imitation of several countries he has visited.

The fourth suggested amendment to the Constitution relates to the abolition of the provision giving each State exclusive jurisdiction over its domestic corporations except such as engage in interstate commerce, while the modified form proposed by Mr. Bryan would permit the Federal Government to have concurrent jurisdiction whenever the State failed to properly supervise the creatures of its own statutes.

The Fathers founded a republic, a representative government, but the returned orator speaks in praise of the modern trend toward democracy, a term slightly less forceful than community. I submit that there are more points of similitude between a monarchy like England and a representative government like the United States than there are between a representative government like this and a pure democracy.

He then proceeds to advocate a different law for the wage earner and for the tenant. If my tenant threatens to cut down my shade trees or to injure me in any way wherein a suit for damages will not be an adequate remedy, I can enjoin him. If my employee threatens to do the same thing, Mr. Bryan thinks he should be permitted to proceed, and thereafter be given a trial by jury regardless of whether such a remedy would prove a remedy at all or not. That the injunction has been many times improperly invoked I

Defends

Anglican

Jurisprudence.

have no doubt. Arrests also have been made, many times improperly, and criminal prosecutions have been begun in innumerable instances for the sole purpose of collecting debt. The fact remains, however, that Anglican jurisprudence is the best safeguard not only to property, but also to personal and individual rights which the race has thus far evolved.

From the Turk, the Bulgarian, the Servian, the Hungarian, and the Austrian he would bring back and incorporate into the settled policy of this country government ownership of trunk lines of railway. Some of us who still see elements of good in what the Fathers conceived and somewhat to preserve in our civilization as exemplified in the habits and customs of our people, and who are therefore styled conservatives, are disposed to congratulate ourselves that the great promulgator of innovations permits the institution of marriage to remain unassailed. Still Colonel Bryan gives notice that there are several other subjects to which he expects to address himself at an early date.

Government
Ownership of
Railroads.

Of his speech four columns out of a total seven are devoted to trusts, in which term, in its comprehensive sense, he includes railroad abuses and even the protective tariff. Dismissing three and one half columns of sympathy expressed for a corporation-burdened people and of anathemas hurled against predatory capital, and confining myself to the scant one-half column wherein he mentions rather than discusses measures of relief, I find this sentence: "We must not quarrel over remedies." He then

suggests that something may be expected from the enforcement of the criminal provisions of the Sherman Antitrust Law. While the effect of a criminal conviction, followed by imprisonment, is usually wholesome, it is well for us who analyze the practicability of proposed remedies to remember that the civil provisions of the antitrust law can be established and enforced by a mere preponderance of evidence, while no punishment for crime can be imposed until the essential facts constituting the crime are proven beyond a reasonable doubt as found and returned in the verdict of a jury. The difficulty in enforcing the Sherman Act does not lie so much in applying its provisions after a case has been proven as in obtaining evidence sufficient to prove a case.

He then boldly states that the enforcement of existing laws is not sufficient, and adds, "The Democratic Party must be prepared to propose new and efficient legislation," and proceeds to suggest what has been often suggested:

"It is worth while," he says, "to consider whether a blow may not be struck at trusts by a law, making it illegal for the same person to act as director and officer of two corporations which deal with each other or are engaged in the same general business."

I suppose he means to say that if I should buy a portion of the wonderful iron ore beds of Alabama, or of the matchless marble deposits of Colorado, or of the coal measures of Wyoming, or of oil lands in Texas, and for their development should build a

railroad, having promoted both enterprises, and having invested money in each, I should not be permitted to be a director in more than one. It is one thing to limit a common carrier to the particular line of business for which it was primarily organized, as is done in the rate bill enacted at the last session of Congress, and quite another thing to restrict what some understand to be the natural right of the individual to invest his money wherever he pleases, provided only he does not interfere with or restrict the rights and privileges of others, and then, having made the investment, to stand guard over it. Andrew Carnegie is quoted as advising one to put all his eggs in one basket, and then watch that basket. Colonel Bryan is the first, so far as I know, to advocate a law forbidding one to put eggs in two baskets and then watch both.

Thomas Jefferson, on whose teachings Democrats once claimed their party to have been founded, incorporated into the Declaration of Independence the proposition that "the pursuit of happiness" is an inalienable right. Not until happiness is pursued in a way which interferes with the rights and happiness of another should such pursuit be restrained. Notwithstanding Mr. Bryan's statement, made in the same connection, that most corporations are conducting their affairs in a legitimate manner, he would legislate against the many in the hope of preventing improper conduct on the part of a few. If he had one kicking colt I suppose he would hamstring his whole drove.

Pardon the suggestion that the eloquent traveler, having been for some years largely occupied in the discharge of other than executive, administrative, judicial, or even legislative functions, may have omitted carefully to study and analyze existing laws. If a person becomes a director in even one concern, say nothing of two, with intent to monopolize a product and control the price thereof to the prejudice of others engaged in the same line of business, he violates both the civil and the criminal provisions of the existing Sherman Antitrust Law. Prohibiting a man from doing an innocent thing in an innocent way appears to me to be an unnecessarily drastic method of preventing an objectionable thing already prohibited by existing statutes and easily enforced when the essential facts can be proved.

Mr. Bryan then reverts to the Democratic platform of 1900, and announces "as a still more far-reaching remedy," a law requiring corporations to take out a federal license before engaging in interstate commerce, and adds that "this remedy is simple and easily applied." He further says:

"It is far easier to prevent a monopoly than to watch it and punish it, and this prevention can be accomplished in a practical way by refusing a license to any corporation which controls more than a certain proportion of the total product; this proportion to be arbitrarily fixed at a point which will give free operation to competition."

Thus he has found a remedy which he asserts is

"simple and easily applied," and one that will "accomplish the prevention of monopoly." He spurns the thought of controlling, curbing, or restraining the evil, but proposes by a single enactment absolutely to exterminate the last suggestion of ravage on the part of predatory capital. Will his panacea stand analysis? Let us see.

Some years ago my attention was called to what was then at least supposed to be the salt trust. Whether I was rightly informed or not affects in no degree the value of the alleged conditions as an illustration. I was told that a corporation of large capitalization had contracted for the entire output of all the salt works of Michigan, and of all the salt works of New York, and of all the salt works of every other State.

An Analysis.

I assume that if a corporation thus owning or controlling an entire product should make application for a federal license under Mr. Bryan's sure-cure law it would be promptly denied. If refused a license, of course, it could not engage in interstate commerce, and could not thereafter ship salt to Tennessee. But the people of Tennessee would still need salt. What would you do? What could you do? Let me suggest that possibly Jones or some one else could be induced to buy a carload or so, deliverable at one of the warehouses of the trust situated at some one of the salt works. Jones, of course, could ship salt to Tennessee, for no individual can be discriminated against simply because he buys salt of a trust. The result would be that the people of Tennessee would

get the same salt with this difference, slight though it might be, of an additional profit to Jones. The danger would be that Jones, being the only man with a carload of salt in the State, might turn predatory capitalist himself and demand an unusually large profit. This danger would be increased if he should secure an exclusive contract from the trust. Let us hope for the best.

Two or three years ago I started at five o'clock, one morning, from Deadwood, S. Dak., went thirty miles by train, and walked eight to see a tin mine. It was said to be the only workable deposit of tin ever discovered in the United States. If this be true, then one corporation controls the entire output of tin in the United States, and would of course be denied a federal license and could not, under Mr. Bryan's sure-cure law, engage in interstate commerce. Equally embarrassed would be every other new industry, whether it be the production of newly discovered metal like tin or nickel, or the growth of some new fruit or cereal, or the manufacture of some newly patented device. "A license should be refused," says Mr. Bryan, "to any corporation which controls more than a certain proportion of the total product." Some corporation is quite certain to control for a time the entire product in every new industry.

Colonel Bryan's panacea may sound well in a Democratic platform, but upon analysis it does not appear quite so inviting as a part of the statute law of the land.

Before the remedy afforded by a federal license

can be applied either by refusal to grant or by cancellation after it has been granted, it manifestly will be found necessary to establish the fact by competent evidence that the concern actually controls, or is seeking to control, such portion of a commodity, whatever it may be, as will permit it at least to influence if not dictate the price. Under our jurisprudence no law can be passed that does not require the establishment of certain facts as a prerequisite to its enforcement. The Sherman antitrust law has seldom, if ever, been found inadequate when there has been evidence sufficient to prove the monopolistic character of the methods employed by corporations engaged in interstate commerce. Finding it difficult to obtain the necessary proof to make the existing antitrust law in all cases effective, the Republican Party created the Bureau of Corporations, for which, I regret to observe, Mr. Bryan has no word of praise, but which has been found very efficient in securing evidence with which to establish the facts on which to apply the law.

Colonel Bryan's comparison between the present effective prohibition of the transmission of lottery tickets through the mails, or by express or freight, with proposed legislation prohibiting the transportation of trust-produced merchandise, appears to me to have been ill considered. It ought not to be necessary to cite to an intelligent audience the fact that a lottery ticket shows on its face what it is, while it requires evidence to show that a can of meat or a

Transportation
of Trust-
Produced
Merchandise.

box of cigars or a barrel of oil was produced by a monopoly.

The returned champion of a new civilization then reverts to railroad abuses, and recommends that **Its Certain Effect.** all trunk lines be acquired and managed by the National Government, and local lines by the several States. "In those States where the people are ripe for the change," he says, "the local lines can be purchased or new lines built at once." He frankly admits that the American people may not be ready for government ownership of trunk lines and State ownership of local lines, but he thinks both necessary and inevitable. He is not sure that a majority of his own party yet favors such a revolutionary measure, and he thus holds out to his political associates the hope that he may consent that the platform on which he is so soon to make his third campaign shall be silent on that subject. He does not intimate, however, that he will consent to be himself silent on the subject after the convention adjourns, and certainly not during his term of office if he should be elected. Having received popular indorsement at the polls, even though his known views should be suppressed as much as possible, he sees the possibility of so teaching the people from his thus enlarged forum during his first term that he can win a second term on the main issue.

Several prominent political associates of Mr. Bryan have expressed regret at what they call the premature announcement of the issue. Instead of courageously attacking what many of them admit is

a most vicious heresy, un-American, and utterly incompatible with constitutional representative government, they content themselves with mild regrets that the one man who for ten years has been able to dictate the paramount issue of his party and its platform should anticipate the party trend by this early pronouncement. They say the party is not yet ready. Not yet? When will it be? Mr. Bryan does not seem to me to be far in advance of his party. The platform adopted at the Democratic State convention in New York in 1902 declared in favor of government ownership and operation of anthracite coal mines. The whole question may as well be fought out now as at a later date, when perchance financial depression and widespread suffering may distract the public mind and prevent the expression of deliberate judgment on the subject. "To be forewarned is to be forearmed." That the issue must soon be met everyone who has studied the evolution of political sentiment within the Democratic Party has for several years recognized. For one I accept the challenge.

In his zeal to criticise recent legislation Colonel Bryan points out a possible danger, applicable, however, to the new order of things which he recommends quite as much as to the rate bill against which he directs it.

"If an appointive board has the power," he says, "to fix rates, and can by the exercise of that power increase or decrease by hundreds of millions of dollars the annual revenues of the railroads, will not the railroads feel that they have

A Dangerous
Power.

a large pecuniary interest in the election of a President friendly to the railroads?" If he were wholly frank he might have said, and with greater force, "If an appointive board, removable by the Executive, can fix rates, and by the exercise of that power increase or decrease by hundreds of millions of dollars the revenues of the railroads, and can also increase or decrease, to the limit of judicial forbearance, the rates to be paid by each and every community between the seas, may not some Executive who is both ambitious and unscrupulous, by the exercise of that imperialistic power, perpetuate himself in office to the day of his death, and dictate his successor?" Possibly it was in part to prevent a contingency like this, when perchance some man of the type I have described shall be elected President, a somewhat liberal court review was provided in the rate bill.

Unless Colonel Bryan's fears that some Chief Executive may abuse the discretion lodged with him under the rate bill are groundless, then what might we not fear should the nearly ten thousand officials and nearly a million operatives of trunk lines of road be made either subject to Executive appointment or placed under civil service, subject to Executive removal for capitious cause, or retention regardless of inefficiency?

Nor is this the sole objection. Not long ago the directors of a trunk line of railroad held their annual meeting. It finished its business at a single session, but before it adjourned it had appropriated \$10,000,000 for extending its lines, increasing its rolling stock, and bet-

Public and
Private Enter-
prises Compared.

tering its track and terminal facilities. How long would it take Congress to appropriate \$10,000,000 for a single road touching only six States when every State from Maine to Oregon, and from Montana to the Gulf, was asking equal appropriations for the improvement of their facilities?

Say all we please against the influence of local interests, but the fact remains that no appropriation for the improvement of rivers and harbors, however imperative, can be passed that does not widely scatter its bounty so as to include a few nonnavigable streams and some other unnecessary improvements. No public-building bill can be passed for the erection of a customhouse, public store, or post office, though its construction will save to the Government in rent an amount in excess of the interest on the cost, that does not also provide for a few post offices in Democratic and Republican districts alike, where the cost of maintenance after erection exceeds the rental now paid for adequate quarters, and where the erection of a public building is an absolute waste of money. River and harbor bills and public-building bills are nonpartisan measures. The opposition says much in platform, and more from the stump, in favor of economy, but when it comes to appropriations there is remarkable nonpartisan unanimity of opinion from every district likely to be rewarded. Knowing as I do that public revenues come very largely from the wealthy and well to do, and that expenditures for rivers and harbors and public buildings go almost entirely to labor, I do not wish this to be understood

as the registration of an objection to the policy of internal improvements. I admit them to be against the teachings of Jefferson and in the face of the early teachings of the Democratic Party. But on the policy of centralization, as well as on most other questions, the party of Jefferson has wandered far.

If the trunk lines of railroads were once placed under the direct supervision and control of Congress, **Self-Interest** does anyone suppose that one line could be **Would Prevail.** double-tracked and rock-ballasted until facilities on every other line were made equally good? Would one road like the New York Central be given four tracks and cement and steel-construction bridges, while the Rock Island, with more mileage and touching territory having more votes in the House and several times as many votes in the Senate, has but a single track and crosses streams on bridges with wooden piers? Would it be possible to have an hourly train service between New York and Philadelphia, and between Chicago and Milwaukee, with parlor cars and dinner service, and have only two trains a day between the homes of several times as many senators scattered between Seattle and St. Paul? Would it be possible to have a through fast train pass any town without stopping, and especially the home town of a congressman or senator?

There are over 20,000 public servants, exclusive of Presidential appointees, under the direct supervision of the department at the head of which I have the honor temporarily to preside. They are a good, conscientious, painstaking body of men and

women, and yet if the Treasury Department were a private enterprise, every whit as much work could be accomplished with a reduction of one third in number and one fourth in the salary of those remaining. This condition is not to be charged to civil-service rules and regulations, of which I most heartily approve, but to the inherent nature of public service.

For four years I had the honor of being the ranking officer at the State House in Des Moines. At the beginning of my term we had no civil-service rules, but conditions were just the same as in the federal service.

Some years ago, while walking through Lincoln Park, Chicago, I noticed a group of twenty-five, or more, men pushing lawn mowers. Stop-
Instances Cited.
ping to make some inquiry of a policeman, I innocently asked why the city did not use mowers drawn by horses. I shall long remember his reply: "I guess you don't live in Chicago, do you? How long do you think the city administration would live if it mowed the park with horses?"

The corner stone of the City Hall in Philadelphia was laid July 4, 1876, but the building was not completed until during the first year of the present century. The Capitol at Albany was begun in the sixties; it was far enough advanced to be the scene of an inaugural ball during the seventies, and was completed, all save the tower, for which the foundation was found insufficient, in 1899. In the meantime the two great political parties al-

ternated in control. I am told in one or more instances four generations performed work on the building.

The appropriation for the public building in Chicago was signed by Grover Cleveland, and about sixty days ago I made final settlement and signed the warrant for the last payment, and was then able to answer public criticism because the work had progressed so slowly, with record proof that it had been about as expeditiously built as most structures of its character erected by the Government.

Harlem River, extending from the Hudson to the East River, eight miles in length, was dredged by the Government to a depth of fifteen feet in seventeen years.

Now note a few instances of private enterprises. In 1904 the Pennsylvania Railroad began the construction of twin tunnels through the mud and rock beneath Hudson River, and four tunnels extending thence under the city of New York and beneath East River to Long Island City, and now, at the end of two years, feels confident that its fifteen miles of nineteen-foot waterproof tunnel will be completed and in use within the contract period of four years.

John B. McDonald began work on the subways of New York in March, 1900, and had nine miles with double track and stations in operation in four years and seven months.

These instances illustrate the natural, the necessary, and the inevitable differences between private

enterprise and government work, and might be multiplied definitely.

I do not know that I can explain the reasons why these differences must and always will exist better than to recite a very commonplace experience. I received a telegram some days ago from the cashier of a little bank in which I am interested. It read: "I am offered forty-two fifty an acre for your East Boyer land. What shall I do?" I answered: "You know better than I. Do as you think best." To this he replied: "I think the land is well sold." These telegrams were not even preserved. But if I had been acting for the Government I would have had the land advertised for sale; I would have sent a commission to examine and appraise it; I would have had not less than two subordinate officers of the department go through all the papers and submit their recommendations: I would then have rendered final decision, but I would have been careful to preserve a complete record of everything lest on some unhappy day after my retirement, and perhaps after my demise, an investigating committee, appointed perchance by an adverse Congress, would make inquiry, and failing to find positive proof of honesty would make a report filled with suggestions of doubt, and that would be quite enough to brand my name with shame. My subordinates take the same precaution, and safeguard their reputations with an equal amount of red tape whenever they sell an old horse or wornout piece of furniture.

Observance
of Detail
Necessary.

For the last ten years the railroads of the United States have paid on the average a fraction over three per cent in interest and dividends **Railroad Taxes.** on their capitalization, including their bonded indebtedness. This would be about four and one half per cent on what it is estimated it would cost to rebuild the roads. Government bonds, sufficient to cover the present purchasable value of the trunk lines of road or to construct new ones, could not be floated, free of the burden of taxation even, for less than four and one half per cent, and under government management the roads could not pay two per cent on the cost at present freight and passenger rates.

Last year the railroads of the country paid \$54,000,000 in State, county, township, and municipal taxes. Since government property is not subject to taxation of any kind, I fancy Colonel Bryan's scheme will develop some local opposition before the States surrender revenues averaging over \$1,200,000 for each.

It is sometimes said in support of this proposed new civilization that the Government does transport **The Post Office.** its mail and operate its post offices and its subtreasuries. I reply that the Government does not transport its mail. The mail is carried under contract, and wherever practicable contracts are let after advertising for sealed proposals. Astonishment is sometimes expressed at the cheapness with which the Government carries and delivers its mails, and yet I am credibly advised that any

express company would gladly contract to render the same service at a very substantial reduction from what it now costs, provided the Government would continue to build post offices in all the large cities and in many of the small towns, and charge the cost thereof and the expense of maintenance to other and independent appropriations as it does at present.

But it is one thing to have government servants handle the money at subtreasuries and pay it out as public administration requires, and quite a different thing for the Government to operate banks, receive deposits, buy and sell exchange, and loan money on interest. Government
Supervision. The Government does inspect and exercise jurisdiction over such banks as elect to operate under federal charters. I would be glad to have the right and privilege extended for savings banks, trust companies, insurance companies, and trunk lines of railroad, and perhaps other enterprises, to incorporate under a national charter, thereby inviting and submitting to federal supervision. The Government likewise supervises the business of all common carriers that elect to cross State lines and thus engage in interstate commerce. It not only proposes to fix and determine all freight rates when the road and the public cannot agree, but also to so supervise the operation of these roads as to prevent rebates and discriminations of every kind and abuses of every character, whether they affect individuals or communities.

Not every avenue of evil in this life can be closed by legislation. Israel suffered seriously for having worshiped a golden calf while Moses was receiving divine commandments. I do not know that we are in danger of making statute law the object of our idolatry or of substituting penal codes for the plain teachings of morality, but I do know that in spite of legislation, and in the face of penal codes, abuses arise and crimes are committed. They are discovered sometimes even in the mail service, and sometimes in the management of banks. Postmasters occasionally default, mail carriers now and then commit larceny, and some bank officials prove inefficient and others dishonest. This will always be so. So long as private business and public affairs remain in the hands of men possessed of human propensities and weaknesses, and subject to human frailties, sin and wickedness will manifest themselves. Meanwhile, let us maintain a representative form of government, encourage individualism, keep the way open for men to embark in any and every legitimate business, sanely and conservatively improve the laws we have, strengthening them wherever practicable, and simplifying the machinery by which they are executed. It is the appropriate function of the Government to safeguard the individual, and to see that the game of business is fairly played, that the cards are held above the table, and that everybody is given a square deal. It is not the appropriate function of the Government to sit in the game.

XLVIII

POPULAR SELECTION OF OFFICERS

TO be a congressman and represent 200,000 American citizens in the legislative councils of the nation is a great privilege. The fathers builded wisely, and, some have suggested, more wisely than they knew. They planned a representative government and not a democracy.

In harmony with the thought of the founders of our Government the electors of a given precinct meet and select a limited number, presumably from the better informed of the precinct, to represent all of the same political faith at a county convention. Here similarly selected men from all of the precincts of the county gather, and from this body of the better informed of their respective precincts select presumably the best informed to represent all of that faith at a Congressional convention.

Here representative and well-informed men, similarly selected from all the various counties of the district, meet and canvass the situation, and after due deliberation select a candidate to represent the district. The party he represents is successful at the polls and he is elected. By this election a hitherto private citizen is invited to step out from his

law-office, his store, his bank, or his farm, and to give himself to the study of statecraft.

It is a great thing to be thus commissioned. Our friend now goes to Washington, and there meets
 The Congress- approximately two hundred others simi-
 man. larly selected men holding like commis-
 sions, who agree with him politically, and about the same number, sometimes more and sometimes less, who disagree with him politically. Here governmental questions are presented and discussed, views exchanged, and votes recorded.

How shall our friend vote? He represents primarily a district, and, secondarily, the whole country.

Though Dele- It is manifestly his duty to listen to the
 gated, Yet advice of every well-balanced, intelligent
 Independent. man of his district, and also to every un-
 balanced, ignorant man of his district, if such there be. The expressions of opinions from these sources are to be considered and given due weight. But how shall our friend vote? Shall he hold himself responsive to every wave of popular sentiment which may affect his immediate constituents, or shall he rise in his manhood and intelligence and so speak and so vote as, in his judgment, will best conserve the interests of the people he primarily represents by best conserving those of the whole country?

If I analyze the situation correctly, it is his duty to act always in harmony with his party on fundamental political principles, and to dissent from the policy of a majority of his political associates only when compelled to do so by an abiding conviction.

In helping to shape the course of his party, he must voice his own judgment even though it runs contrary to temporary local sentiment.

Having been commissioned to study public questions, and having been a student of statecraft, he has a right to assume that he understands what is involved in pending measures somewhat better than the average man of his district, however much time the latter may have given thereto, and much better than the man of his district who has been, admittedly, engrossed with his own individual affairs. If he rises to this plane he will sometimes record his vote otherwise than the majority of his constituents will desire. This he will regret, but he will be controlled not thereby but by his enlightened judgment.

But our friend's commission is not yet fulfilled. Having been called to the study of statecraft he is likewise called to be a teacher of statecraft. His constituents have sent him to a great political normal school, and it is now his duty to return to those who sent him and instruct them in matters political, and to teach the relation between public questions and the moral, the commercial, and the industrial interests of his district and of the country at large.

Some years ago I was at Lexington, Ky., and heard the older citizens tell with commendable pride of the days when they used to meet Henry Clay at the Ohio River and bear him home amid an escort of admiring friends. They

showed me the balcony of the old hotel from which the great statesman of his time used to instruct the people by the hour. Such a course continued through a term of years will produce great statesmen, and such statesmanship continued will develop great constituencies.

It may be that, as some contend, the trend of the times is not friendly to statesmanship. The Statesmen or Demagogues. temptation may be great to study local sentiment and promptly respond thereto, rather than the real needs of the hour and be faithful thereto.

The press too generally conveys the impression that it is the consummation of statesmanship to succeed in keeping oneself in office. To believe something and politically perish because of his convictions is painted in disgraceful colors. In some quarters it seems to be impossible of conception that a man does anything except with an eye single to his own political advancement. If this is to be the standard, if it is to be approved by the public, then no one must be surprised if the next decade produces quite as many demagogues as statesmen.

—AT WINNEBAGO CITY, MINN., OCTOBER, 1906.

THE YOUNGER GENERATION

XLIX

THE BOY

I NOTICE there are young men here of nearly all ages, but I am particularly interested in what is being done for the boys.

I remember some years ago hearing Dr. Payne, then secretary of the Educational Society of the Methodist Episcopal Church, say that the nineteenth century had been the most wonderful century of all ages; that it had been an age of discoveries—discoveries of physical, mechanical, moral, and intellectual forces—but that the greatest discovery of the century had been woman. That statement will bear analysis. Relatively speaking, she was an unknown quantity at the beginning of the century. He then expressed the hope that the twentieth century would discover the boy.

It may always have been so, but it is specially true to-day that the world is producing a higher type of womanhood than of manhood. We know more young women whom we would welcome to our homes as daughters-in-law than young men whom we

would welcome as sons-in-law. There are reasons why this is so, but there is no excuse for it.

You will bear with me that there is nothing in the world so well worth looking after as the boy, and I think you will agree with me that
His Neglect. there is no being in the world so much neglected as the boy. There is little place, scant room, for him. He is welcome in the home as a baby, and he is welcome as a man, but there is scant welcome for him as a boy. The attitude of the world toward him is too nearly expressed by the mother, who said to the nurse:

"Where is Johnny?"

"Out in the yard."

"What is he doing?"

"I don't know."

"Well, go and see, and tell him to stop it."

So long as he wears curls there are birthday parties for him, but not afterwards. There are parties and teas and seats at the table, when guests are at the home, for girls, and I am glad of it. I wish there were more for boys. We chaperon our girls and not too carefully, but we leave the boy to choose his associates and his environments with much advice and with very little guidance. Girls are naturally winsome, gentle, and companionable, and they are very welcome in all homes, but I do not know of many homes where boys are invited. About the only door that swings with sure welcome to the boy, about the only chair that is shoved near the fire especially for the boy, about the only place where he

is sure of a welcome, is where you do not desire him to go.

It is about the hardest thing in the world to get hold of a boy—to get a sure grip on him. I once knew a father who spent most of his life in being a companion to his son. He went skating with him. He went everywhere with him. They were always together. They were companions. The father never amounted to very much, but the boy did. Well, the product justified the expense.

I think you will agree with me that it is pretty hard to win the companionship of your boy. You may think you know something about him. Very likely he knows more about you than you do about him. Yet that boy is hungry for companionship, and he will have it. He wants the companionship of boys. Nothing will take its place. As a rule, I think you will agree with me that boys—I am not now speaking of young men—prefer boys' schools. If permitted to, they will quit the public school if given nothing but girls as teachers. They may remain under the tuition of matronly women, but not under the tuition of girls. It isn't a question who is the best teacher. It is a question of companionship.

I have learned by experience that mixed Sunday-school classes are a failure. The only way to keep boys in the Sunday school is to put them in classes by themselves. They want the companionship of boys. The object of the Young Men's Christian Association is to furnish an open door, a warm

hearth, and companionship for young men; and I am glad that it is extending an equally cordial hand to boys.

I think about the loneliest place in the world is a large city. The ranks of business are being filled with young men and boys from the country, and these find this loneliness especially oppressive. About the only companionship obtainable in the open market within the means of the new recruit is a very cheap article. Yet, in exchange for it, the boy barter his opportunities—his prospects in the life that now is, and sometimes his hope of the life beyond. The Young Men's Christian Association is supposed to put much better companionship on the market and at an infinitely less cost.

If the twentieth century shall succeed in finding the boy, it will be because the boy succeeds in finding himself. The greatest discovery in the world is self-discovery. A great many people go through the world and never discover themselves, never come to the consciousness that they are an element, a factor, in the world. They feel no personal responsibility; the load does not touch their shoulders. We are apt to criticise self-assertion, and yet a boy or a young man who overestimates himself is worth infinitely more than the one who admits his own inferiority. The one will probably discover his mistake and he will get much assistance to that end, but the other will never know his latent capabilities, and few will care

whether he does or not. I was talking not long ago with the man who does the employing for the largest retail store in the world, and he told me that he had men looking through the departments trying to find young men who are worth promoting. The average employee goes along discharging his duty in the average way—a part of the great army—without ever waking up to the consciousness of his individual worth or the possibility of his being of actual worth to the establishment. The work of the Young Men's Christian Association is well calculated to reveal to those who are under its influence the latent possibilities with which they are endowed.

It has been said a thousand times—and anything that has been found worth repeating a thousand times should be repeated ten thousand times—that money invested in this class of work pays the best dividends in the world.

A Great
Investment.

Different ages have had different ambitions. Men have wept for more worlds to conquer, and men are now well-nigh weeping for more business to do, for better tools with which to do business, for better and more efficient men and instrumentalities to put in charge of business, and for more money to put behind business. The great fortunes have not been accumulated for fortune's sake, but they have been the incident of business for business's sake. The farmer raises all the corn he can so as to feed all the hogs he can, so that he may buy more land and raise more corn, so as to feed more hogs, that he may buy more land and raise more corn and feed

more hogs. What for? That he may buy more land. He does not do this because he likes more hogs or money or land particularly. He likes the thrill of success. He is interested in his business. This illustrates every other industry. But the time is coming, and coming rapidly I think, and some of the speeches we have heard to-night from the men engaged in conducting the great industrial enterprises of this country encourage the thought that the ambition that is to permeate some generation, perhaps not far off, will be the desire to plant righteousness in the world.

—A SPEECH DELIVERED AT THE Y. M. C. A. BANQUET,
WASHINGTON, D. C., FEBRUARY, 1903.

L

YOUTH

THERE is a charm to student life which only those can appreciate who have passed some years beyond. I think I can understand, to some extent at least, the thoughts that come to you. It was not so very long ago that I looked out on the world and came to the deliberate conclusion that I had reached man's estate at a very unfortunate time. Wherever I looked the acceptable places were all occupied. It seemed to me then that if I had been born some years earlier I might have had some chance, but as it was I thought myself pretty badly hedged in and seriously handicapped.

In this frame of mind I left the home of my childhood, and put 1,200 miles and the Big River between me and the roof that had been my protection. I soon found myself in a settlement of homesteaders. Even there the land had all been entered, and there was not a vacant forty. I soon learned from observation, however, that some of those who made entries did not properly "work their claims," and others would "jump" them, and if the legal conditions had not

Work Your
Claim.

been complied with would succeed to the improvements. I also learned that the same principle prevailed in every other walk of life. The man who did not properly "work his claim," whether it was the practice of law or of medicine or business of any kind, would be very soon looking for something else to do.

I now look back over the thirty-five years that have passed, to realize that I have lived a third of a century under the most favorable conditions with which the race was ever blessed, and under a flag which out-classes all others in its guaranties of opportunity.

Years That
Promised the
Least Were
the Best.

Like most every other man of affairs I have frequently been asked by young men, "What shall I do?" This inquiry gave me some anxiety at first, but now I have a stock answer: "I don't care what you do." This would seem cold if I did not follow it with the assurance: "It matters little what you do providing you do it better than it is now being done."

If I were to say that no uneducated man ever succeeds, it would be necessary to define what I mean by education. Men succeed who can neither read nor write, but they do not succeed without education. Men go through college, take postgraduate courses, and then sometimes fail for want of education. Education does not consist in simply knowing certain facts. If it did, some one would tell you how many facts you must know

Education
and Success.

in order to be educated. Facts are cold. Education is mental warmth.

If I were to criticise modern educational processes as pursued in the schools, I would say that the average school, the average academy, and the average college are placing undue stress upon memory to the neglect of the reasoning faculties. Our schools produce too many granaries and not enough grist-mills. You can buy for twenty-five cents a vest-pocket volume containing more facts than any one man living or dead ever knew. But you might commit this entire volume to memory, and justify your friends in calling you a walking encyclopedia, and you would still remain uneducated. You would be quite well informed, but you would not be educated.

Education is a drawing-out process as distinguished from a cramming process. An educated man is able to take facts, like grain, and grind them, bolt them, leaven them, knead them, and bake them. Then he has something possessing a market value. Capacity for success, therefore, is capacity to think, to reason, to weigh, to adjust, to deduce, to conclude, to decide, and then to act upon the decision.

If you, young gentlemen, reach the point where your mind is the servant of your will you can safely assume to be educated. If we were all under promise that as soon as our minds wandered from an assigned theme we would retire from this hall, the exits would be blocked in less than

two minutes. Our minds do not obey. They refuse to grind.

General Grant, in his memoirs, gives his early experience at West Point. As I recall it, the boys General Grant's had a little fun with him. Among other Lesson. things they gave him the command, "Look at that hole!" He looked at it, saw it was all right and looked away. With great severity the command was repeated, "Look at that hole!" Again he looked, and found nothing to criticise and raised his eyes. Again the command came, "Look at that hole!" Then he learned the important military lesson to do the thing commanded until he received a new command. I had used this illustration many times before I knew the sequel. Many years afterwards Mr. Grady, the great Washington photographer of his time, was taking President Grant's picture. It then required a three-minute exposure. In the midst of the sitting a strong March wind blew a brick from the chimney, which came crashing through the skylight. General Grant did not spoil the negative. He had learned to "look at that hole." A nephew of Mr. Grady told me he still had the negative taken under these conditions, and which does not show a tremor. It would seem that General Grant's will was pretty strongly enthroned, and that not only his mind but his muscle obeyed. He was exceedingly well educated.

I told you that you would have no difficulty in after life if you do something better than it is being done. You may have difficulty in doing it better than

it is now being done, notwithstanding the fact that the world's work is not even now being very well performed.

When you have completed your course, if you should go to some town and inquire of the prominent citizens what the opportunities were there for a young lawyer, they would ^{The Old Story.} laugh at you and tell you they could not understand how the majority of that profession lived. If you were to inquire whether they needed another physician, they would tell you they had more physicians than sick people. If you should seek a position as teacher, you would find yourself in competition with a very large number of well-indorsed applicants. If you should ask if there were another merchant needed, they would tell you that the sheriff had just sold two stocks of goods.

For your encouragement, let me say that there is not a town of 1,200 people in any State in this Union where a young lawyer may not ^{Real Worth} make not only a good living, but a com- ^{Sure to Win.} petency, if he will work solely in the interest of his clients, and give safer advice and try cases more effectively than the other resident members of the bar.

As much can be said of every other profession and of all branches of business. I would not like to say how it is here, but in the neighboring State they have a great many attorneys, but no surplus of lawyers; many doctors, but not many physicians; a vast number of pedagogues, but very few teachers; a

goodly number of occupants of the pulpit, here and there preachers; storekeepers innumerable, but only an occasional merchant.

I said to the president of our State University some years ago that I had spent a part of twenty years in school, but that I had had only three teachers. He congratulated me on my good fortune, and said he had never had but one. All the others heard recitations or lectured.

Bishop Fowler says: "Nature keeps a one-price store. Whoever lays down the price gets the goods." A portion of the price of success in whatever profession or calling you engage must be paid in self-reliance. The American youth is, perhaps, more deficient in self-reliance than in almost any other essential. There is a great difference between self-reliance and self-conceit. I repeat the American youth is deficient in self-reliance.

In an old reading book can be found the story of a man who sent his son on an errand to return at a given time in the afternoon. The boy went on horseback, fording on his way a shallow stream. During the day a storm arose and the stream became swollen. The father, knowing that the boy would return, went and anxiously watched for his approach. Standing concealed in the brush he saw the boy enter the stream. The horse soon lost its footing and commenced to swim. The boy, frightened, looked across, and spying his father, cried out: "I shall drown, father, I shall drown!" Stepping into the open the father shouted: "No, you won't drown. If

you drown I'll whip you to death. Cling to your horse." The boy clung, and when safely across the father, overcome with emotion, taught a lesson in self-reliance.

There is a little verse by John G. Saxe that I think it would be well for you to commit. You shall judge of its appropriateness:

"GO IT ALONE"

There's a game much in fashion,—I think it's called *Euchre*,
(Though I never have played it, for pleasure or lucre,)
In which, when the cards are in certain conditions,
The players appear to have changed their positions,
And one of them cries, in a confident tone,
"I think I may venture to *go it alone*!"

While watching the game, 'tis a whim of the bard's
A moral to draw from that skirmish of cards,
And to fancy he finds in the trivial strife
Some excellent hints for the battle of Life;
Where—whether the prize be a ribbon or throne—
The winner is he who can go it alone!

There's something, no doubt, in the hand that you hold,
Health, family, culture, wit, beauty, and gold
The fortunate owner may fairly regard
As, each in its way, a most excellent card;
Yet the game may be lost, with all these for your own,
Unless you've the courage to go it alone!

In battle or business, whatever the game,
In law or in love, it is ever the same;
In the struggle for power, or the scramble for pelf,
Let this be your motto,—*Rely on yourself!*
For, whether the prize be a ribbon or throne,
The victor is he who can go it alone!

Quite a large portion of the price of success must be paid in industry. Of course you know this as well as I, though, perhaps, we
Industry. would differ somewhat in our definitions of industry.

Walking home one evening I fell in with a lawyer of national reputation. Incidentally he remarked that he would have to hasten back to his office, for there were some things that he could do better in the undisturbed hours of night than during the day. He goes to his office at nine in the morning, and frequently stays until midnight. You say that is paying too dearly? Barring fortuitous circumstances that is the price of such reputations.

During the preparation of the Iowa troops for the Spanish War, I had occasion to appoint two surgeons to assist the government surgeons in making examinations. I appointed men of more than State reputation. One of these stepped from his carriage one morning as I was passing, and told his driver to take me to the Capitol while he made his call. In the rack in front of the seat were several current magazines, and opened on the seat was one from which he had been reading. He has passed me a hundred times in his carriage, but he is always studying. He reads every medical magazine printed in the English language. I had occasion to call on the other surgeon twice near midnight. He was not expecting me, but I found him each time in his office hard at work.

Senator Hanna once told me that having occasion to call on Phil Armour, his secretary arranged an appointment for one o'clock. He found Mr. Armour being shaved, eating his lunch, and dictating to a stenographer. It was the only leisure time he had. Do you say the price was too high? I do not ask you to pay it. I am simply telling you the price which Phil Armour paid for writing his name under every sky and in every language. I will warn you also that there are no bargain counters for such achievements.

An Instance.

I am on record as offering to travel a thousand miles to see the grave of a man who has died from overwork, but the cemeteries contain both men and women who have died for want of work. The fourth commandment contains this language: "Remember the Sabbath day to keep it holy. Six days shalt thou labor and do all thy work," etc. If the first clause is binding, is not the second also? Both are for our good. And, in proof of their adaptability to our natures, let me assure you that the satisfaction which comes to man at the accomplishment of a worthy task worthily accomplished, is not excelled by the appropriate rest that appropriately follows. Looking at one's work, being able to pronounce it "very good," furnishes a glimpse of the divine satisfaction which, it is recorded, the Almighty experienced at creation.

Work and
Happiness.

It is very likely that in the near future some of you will seek employment. If you take my advice you will never work for hire. Do not misunder-

stand me, and that you do not let me explain. The lawyer who will make a plea for the fee involved, the *Working* surgeon who would amputate limbs for *for Hire.* money, like the man who renders any service simply for the pay, misses the natural and legitimate incentive to human endeavor. The lawyer, the surgeon, and the laborer are, of course, worthy of their hire, but he who has no incentive to service but the pecuniary compensation lives in a self-imposed atmosphere but slightly better than that of the galley-slave.

A very large portion of the world's work is drudgery, but the signally successful men whom I have met are never conscious of performing drudgery. They do not work for hire. Should you work for hire you will find eight hours per day, at a moderate gait, about all you can stand. If you do more you will be liable to break down; but, should you work for the accomplishment of something, you can labor at the top of your condition fourteen hours per day and preserve your health.

I want to advise you to save something from your income. It may be true that the world owes you a living—if you can collect it—but the world will stand serenely by and see you starve and your family beg for bread. A man once told me he had always lived from hand-to-mouth, but as he grew older the distance had increased. Save something.

You are entering active life when competition is

much more intense than it was in former generations, and for this I congratulate you.

When William Tell was commanded to shoot the apple from his son's head, the author makes him say to Gesler: "Thou hast picked the smallest one." To this Gesler replies: "I ^{Competition.} know I have. Thy skill will be the greater if thou hittest it." Then Tell is made to say: "I did not think of that. I wonder I did not think of that." He was willing to shoot at the smallest apple that he might demonstrate his greater skill.

Success in this twentieth century will be won by the exercise of greater skill than has heretofore been necessary. You have some advantages, ^{Excellence} however. The world is willing to pay ^{Commands} any price for excellence. I know a chief ^{High Price.} cook in a prominent hotel—they call him the "chef"—who gets \$10,000 per annum. I know the "chef" in a less prominent hotel—they call him the cook—who gets \$10 per week. I have sampled the product of each, and I think the ten-dollar man is relatively overpaid.

I have known American Beauty roses to sell at \$3 each. You can buy "cripples" for ten cents each. I would suggest that if you engage in the rose business you grow the three-dollar size. If you can improve the bloom or the perfume they will probably sell at \$5 each. I know of a pig in my State which sold at auction for \$5,000. Had it been a better animal, with a finer pedigree, it might have brought \$6,000.

I was talking with a business man in San Francisco a few years ago who told me that out there they had a surplus of fifteen-hundred and two-thousand-dollar men, but that they were short of ten-thousand-dollar men. The same is true in this city and in every part of our country. But, young men, ten-thousand-dollar jobs are not to be had for the asking, nor prior to a demonstration that the applicant is worth \$10,000. It is some consolation, however, to know that you are bringing your goods to market at a time when the "bulls" are in absolute and undisputed control.

Some years ago I attended the first agricultural fair ever held in a certain county in western Iowa.

I think every citizen of the county was present. Perhaps fifty persons. A fair without a horse race is a failure; so they had one there. The contestants were taken from farm teams and attached to sulkies constructed from the wheels of hay-rakes, and the track was staked out on a stubble-field. I do not remember the time made, but I remember one horse took first money and the other second. There was a standard in excellence in Calhoun County, Iowa, in the fall of 1870.

If you will go to the race-track now you will find different conditions. The contestants are well-bred animals and carefully trained. They are shod scientifically, perhaps with little weights of one half ounce or more attached to the front feet that their action may be not only good but perfect. They are attached to sulkies made with pneumatic tires and

ball bearings. The track at the outer edge is made higher so that the horse's feet will strike the ground perpendicularly. The best drivers obtainable are put in the seats, and then the race is won or lost by perhaps a tenth of a second. You say this is too severe. Then do not invest in trotting horses, for that is the competition of to-day.

I do not know that this story is true. I like to believe it true, however. It is said that the owner of Axtell was very proud of him. In The Story of Axtell. the first place, the best blood of all the trotting horses was in his veins. It is a great thing to have good ancestors. You want to be careful about that. You want to be careful, also, that your grandchildren have good ancestors. In the next place, Axtell was a good individual. He was well put up, well muscled. It is a splendid thing to have a good physique. In the third place, Axtell had had the best of environments. He had never stood in a stable except with thoroughbreds, and he had never run in pasture with scrubs. It is a splendid thing to have good environments. Then the owner put him in school. He hired a teacher. Axtell did pretty well, as well as the other colts—kept up with his class—but he did not do as well as was expected. His owner became dissatisfied, put him in another school under another teacher. They do that sometimes with horses. Axtell still did pretty well, but you could always see that he had the capacity to do better. He would not do his best. He was what horsemen call “a loafer.” Finally, the trainers were

dismissed and the owner took the reins. Axtell still did pretty well, but he would not do his best. Finally, out of patience, the owner rose in his seat and sent him around the track under the whip until the poor fellow, trying to escape the sting of the lash, made the happy discovery that he could trot faster than he could run, and Charlie Williams brought him back to the barn saying he was worth \$10,000. If I remember correctly he sold him for \$105,000. Axtell was as pleased as his owner when he discovered what he could do.

I wish you young men could appreciate the heights of victory there are before you, if you will assume the guidance of your lives and put yourselves unmercifully under the lash.

This is not a fairy story. I know of many demonstrations of the same principle in human life.

I recall a friend who did not have the best blood of all races in his veins, nor had he enjoyed the most favorable environments. At
The Story
Applied. nineteen years of age he was a common laborer: as honorable a position as any, but not quite as desirable as some. By the premature discharge of a cannon, one Fourth of July morning, he lost his right hand at the wrist and the left about half an inch in front of his thumb. While recovering he became painfully conscious that he had a life on his hands for which he only was accountable. He started to get an education, and he told me that he had threaded his own needle and sewed on his own buttons with a naked thumb on a left hand. When

I knew him they called him judge, and he died, in a prosperous city, president of a bank with several millions on deposit. The painful accident had fired his energies. That was the lash that woke him up, and afterwards he simply did his best.

The chances are that some of you have, and others will hereafter think you have, missed your calling. This will be a false conclusion. Self-Adjustment. Doubtless, there are exceptions to the rule. But as a rule he who succeeds at one thing would succeed at another. And he who fails at one thing would fail at another. Conditions seldom adapt themselves to the individual, and the individual who fails to adapt himself to one set of conditions would not be likely to adapt himself to any. The truly educated, self-poised, self-contained, self-impelled, and self-controlled man is necessarily self-adjusting.

In closing, let me remind you that the standards of life, the real standards of manhood, were never so high as now. Make no mistake. You Moral Worth cannot even enter the United States army Is Paramount. without evidence of good moral character. You cannot succeed in any line of business without the practice of integrity. If you have been told otherwise, if current literature and current oratory have taught you that high achievement in business and in politics is attained through guile, deceit, and treachery, you have been misled to your abiding prejudice.

I congratulate you, therefore, that you have come to man's estate at this time and under these propitious

skies. I bid you welcome to a world which recognizes real worth as never before, and I bid you to so acquit yourselves as to reflect nothing less than honor upon the institution which should ever claim your fealty, upon the homes in which you have been reared, upon the names you bear, and upon the country which promises much, and therefore has the right to expect much.

—DELIVERED BEFORE THE STUDENTS OF KNOX, AND SEVERAL OTHER COLLEGES AND UNIVERSITIES.

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